

MARSHALL COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2017

MARSHALL COUNTY SCHOOL DISTRICT
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KIM HAM

CERTIFIED PUBLIC ACCOUNTANT

MEMBER,
American Institute
of CPAs

♦
MEMBER,
Kentucky Society
of CPAs

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Marshall County School District
Benton, Kentucky

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marshall County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Kentucky Public School Districts' Independent Auditor's Contract*, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request* and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District as of June 30, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 4 through 8 and 41 through 46, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marshall County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated November 10, 2017, on my consideration of the Marshall County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall County School District's internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "Kim Slane". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 10, 2017

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – BENTON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

As management of the Marshall County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The July 1, 2016 beginning balance in fund 1 was \$4,987,182 compared to \$5,285,688 one year prior. The June 30, 2017 ending balance in fund 1 was \$7,586,925 (which includes a Capital Funds Request transfer that was approved at the May Board of Education meeting in the amount of \$2,340,367).
- Property assessments generated on August 4, 2016 and then certified to the District Board of Education by the Commissioner showed total real and personal property valuation at \$2,170,324,736 and motor vehicle valuation at \$286,071,503. The real estate and personal property rate approved by the Marshall County Board of Education was 47.4 cents for real estate and tangible. Real Estate/Tangible rates represent the same rates as the prior year. Note: 5.9 cents of this rate was required to produce the 5 cent equivalent. The total collected was \$9,866,718. The motor vehicle property tax rate was 45.6 cents per \$100 of assessed property. This is also the same rate as the prior year. The total collected was \$1,429,924.
- Districts are funded through the Support Education Excellence in Kentucky (SEEK) calculation. A vital component of this calculation is the Average Daily Attendance (ADA). The prior year Adjusted Average Daily Attendance (AADA) plus growth was 4,388.538. The district showed growth of 31.231. Growth is calculated by taking the difference between the end of the second month attendance figures in the prior year (FY16) and the end of the second month attendance figures in the current year (FY17). (Note: In years when the ADA declines, there is no penalty. Districts are simply funded based on the prior year end of year AADA). The Superintendents Annual Attendance Report (SAAR) showed an ending ADA of 4,376.132. This number will represent the minimum allocation for the next year (FY18). During FY 17, the state equalized the recallable nickel at 100% (as opposed to 25% in FY 16).
- During FY17, the District received \$15,660,631 in state SEEK funds. This is \$286,933 more than the prior year. The guaranteed per pupil base was \$3,981 (same as FY16). Transportation was once again not fully funded through the SEEK calculation during FY17. While the full funding calculation yielded \$2,571,631, funding was prorated at 61.75% for a total received of \$1,587,941 received (\$983,690 less than full funding).
- The utility gross receipts license (UGRL) tax for schools is assessed on gross receipts derived from the furnishing of utility services and/or cable services within a school district. The service provider collects the tax based on the rate established by the local authority. The Department of Revenue (DOR) collects the utilities tax on behalf of the school districts in Kentucky for a fee not to exceed one percent. Utilities receipts were down 6.9% from the prior year. The total collection for the year was \$2,836,144. During any given year, the change can be attributed to a combination of usage, fluctuating prices, and rate of collection. However during FY17, the significant decrease came as a result of refunds made by the Department of Revenue (DOR) to companies which spanned multiple years. KRS 160.6156 sets forth the terms for the refund of utility gross receipts tax. However, according to a representative of the Department of Revenue, Miscellaneous Tax Branch, there were multiple companies which were under a Sales Tax Audit and after the audit(s) ended, his branch was never notified. Upon further investigation the district found that since the utility companies had made their requests timely under the statute, they were due the refund. The DOR acknowledged the situation but also offered that there is no recourse other than requesting that the refunds be broken up into multiple years so as to not significantly skew the budget/actual for that line item. We informed the Board of Education and made the appropriate budget amendments.
- Each year the Tennessee Valley Authority (TVA) is required to make in lieu of tax payments to the Commonwealth of Kentucky as provided by Section 13 of the TVA Act and KRS 96.895. The amount received is determined by the proportion that the book value of TVA property in each taxing district, multiplied by the current tax rate, bears to the total of the book values of TVA property in all taxing districts in the Commonwealth, multiplied by their respective tax rates. Of the Marshall County Schools allocation, 70% is distributed to the Local Education Authority (LEA) while 30% is retained by state government. TVA in lieu of tax funds declined steadily for three years, which can be attributed largely to the closing of USEC. During FY17, TVA in lieu of tax revenue increased as predicted by a representative of the DOR Division of State Valuation. The following table shows all in lieu of tax revenue:

FY17	FY16	FY15	FY14	FY13
\$1,196,742	\$1,079,640	\$1,377,572	\$1,629,389	\$1,681,185

For FY17 the breakdown is: TVA, 90.9%, Paducah Power, 5.7%, Benton Electric, 3.4%.

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – BENTON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

FINANCIAL HIGHLIGHTS (Continued)

- Payroll and benefits for FY17 (including sick leave payout for retirees and excluding on-behalf payments) were \$29,723,215 as compared to \$29,799,759 in FY16. There was no across the board salary increase. Small and large step increases for both certified and classified employees and rank changes for certified are built into the annual salary schedule. NOTE: sick leave payout in FY17 was \$131,821 and in FY16 was \$257,694.
- Retiree health care legislation passed through the Kentucky House of Representatives and was signed into law by the Governor on April 13, 2010. In this "shared responsibility solution", districts are required to match the employees' contribution for the health portion of the Kentucky Teachers' Retirement System (KTRS) account according to the chart below. (KTRS is currently known as Teachers' Retirement System (TRS)).

KTRS Health	10-11	11-12	12-13	13-14	14-15	15-16	16-17
Cost	\$57,325	\$93,973	\$178,518	\$276,241	\$403,381	\$555,447	\$547,582
Rate	.25%	.50%	1.00%	1.50%	2.25%	3.00%	3.00%

Throughout FY17 there has been continued debate and speculation over the future of TRS and CERS with respect to funding and structure. It is expected that a special session in the fall of 2017 will be held with retirement sustainability as the main issue.

- Most classified personnel are covered under the County Employees Retirement System (CERS). This year, contributions to the plan consist of an employee contribution of 5.0% (members with a participation date on or after September 1, 2008 must contribute an additional 1%). Employer matching was 6.34% in FY03. It has increased over the years and has become a significant budget issue. At 17.06% in FY16 and 18.68% in FY17, the employer matching requirement (for all funds) increased in FY17 by \$145,890 for a total expenditure of \$1,117,544.
- Federal statute changes and the Tenth Circuit of United States Court of Appeals ruling in Public Employees Retirement Board v. Shalala, in May 2014, requires that the retirement contribution amount is not to be included in FICA and Medicare taxable wages. Previously, the Commonwealth of Kentucky had been issued a private letter ruling dated February 2nd, 1987 which exempted the pension contribution from wages for calculation purposes. Effective January 1, 2017, the only allowable deduction from gross wages to calculate FICA and Medicare will be cafeteria plan withholdings. The cost to the District during FY17 (for ½ of the fiscal year) for the additional matching is estimated at \$51,500.
- The level at which grants are subsidized by the District remains significant. As a number of variables cause grant awards to fluctuate, the District must choose to either subsidize the individual grant or make cuts in the program. During FY17, the District spent \$987,189 to supplement programs as follows: Technical Center, 65.07%, KERA Preschool, 12.25%, Gifted and Talented, 7.10%, Math Achievement Fund, 4.78%, Read to Achieve, 4.51%, Family Resource, 3.2%, Adult Learning Center, 1.71%, Extended School Services, 1.17%, Project Lead The Way, .2%, and Teacher Quality, .01%. The District spent \$642,375 to supplement the Technical Center grant in FY17.
- There remains a focus on investing in plant management, considering the age and size of our facilities. This process will be achieved using building priorities as compiled in the facilities plan, combined with available funding. During FY 16, the local planning committee (LPC) presented a new facility plan. This plan was approved by the Kentucky Board of Education on June 8th, 2016. It shows capital construction priorities with a cost estimate of \$30,528,550. The District and KDE approved initial BG-1 paperwork for both the Marshall County High School Renovation (\$11.57 million) and the Sharpe Elementary School Addition and Renovation (\$2.15 million). Also, the District and KDE approved a Capital Funds Request form in the amount of \$2,340,367 (from remaining building funds during FY16 and FY17).
- Electricity expenses were up 8.39% from the prior year for a total expenditure of \$1,153,276. Natural gas expenditures were down 10.07% from the prior year with \$155,906 being spent. Water expenditures were up 30.60% over the prior year for a total of \$80,773. These percentages only reflect actual dollars spent during the year and do not factor in any differences in usage from year to year.
- Four buses were purchased (three conventional 72 passenger and one preschool 34 passenger) in FY17 for a total of \$362,067.
- None of the major insurance categories were scheduled to be bid for FY17. The Superintendent's designee typically bids major insurance categories every three years. However, the Superintendent's designee may ask the MCBE for permission to bid more often if renewals are not satisfactory during the other two years.

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service operations, adult education, and our self-insurance dental fund. All other activities of the district are included in the governmental funds.

The basic fund financial statements can be found on pages 11 through 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$23,904,848 as of June 30, 2017.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – BENTON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

	Net Position for the period ending	
	June 30, 2017	June 30, 2016
Current Assets	\$ 12,987,333	\$ 17,723,225
Noncurrent Assets	58,346,795	55,599,641
Total Assets	<u>\$ 71,334,128</u>	<u>\$ 73,322,866</u>
Deferred Loss from Refunding Bonds	\$ 848,505	\$ 964,529
Deferred Amounts Related to Pensions	2,520,278	1,805,017
Total Deferred Outflows of Resources	<u>\$ 3,368,783</u>	<u>\$ 2,769,546</u>
Current Liabilities	\$ 3,084,349	\$ 4,909,808
Noncurrent Liabilities	47,698,208	47,953,301
Total Liabilities	<u>\$ 50,782,557</u>	<u>\$ 52,863,109</u>
Deferred Amounts Related to Pensions	\$ 15,506	\$ 25,775
Total Deferred Inflows of Resources	<u>\$ 15,506</u>	<u>\$ 25,775</u>
Net investment in capital assets	\$ 21,633,771	\$ 21,226,058
Restricted for:		
District activity funds	184,965	134,613
Capital projects and construction	2,112,044	3,638,491
Debt service	36,299	36,251
Other	317,315	337,024
Food service	(802,637)	(698,000)
Unrestricted	423,091	(1,470,909)
Total Net Position	<u>\$ 23,904,848</u>	<u>\$ 23,203,528</u>

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2017, compared to the fiscal year ended June 30, 2016.

	June 30, 2017	June 30, 2016
Program Revenues:		
Charges for Services-Governmental	\$ 316,665	\$ 338,884
Charges for Services-Food Service	569,247	602,682
Operating Grants-Governmental	12,862,812	12,620,353
Operating Grants-Food Service	2,355,899	2,165,174
Capital Grants-Governmental	2,169,793	1,240,300
Total program revenues	<u>18,274,416</u>	<u>16,967,393</u>
General Revenues:		
Taxes	17,754,650	17,464,462
Earnings on investments	196,312	364,312
State and formula grants	15,660,631	15,373,698
Gain on retirement of assets	49,765	10,309
Miscellaneous	5,010	34,902
Total general revenues	<u>33,666,368</u>	<u>33,247,683</u>
Total Revenues	<u>51,940,784</u>	<u>50,215,076</u>
Expenses:		
Instruction	29,991,783	29,681,523
Student support services	2,031,726	2,086,926
Instructional support	1,242,734	1,309,890
District administration	1,479,989	1,665,930
School administration	2,318,861	2,343,829
Business support	1,000,100	1,009,075
Plant operations	5,588,530	4,761,464
Student transportation	2,790,370	2,323,082
Community services	336,560	338,032
Food Service Operation	3,109,308	2,866,943
Adult education	2,444	2,444
Interest on long-term debt	1,311,632	1,345,411
Other Debt Service	35,427	109,448
Total expenses	<u>51,239,464</u>	<u>49,843,997</u>
Change in Net Position	701,320	371,079
Beginning Net Position	23,203,528	23,088,312
Prior period adjustment	0	(255,863)
Ending Net Position	<u>\$ 23,904,848</u>	<u>\$ 23,203,528</u>

**MARSHALL COUNTY PUBLIC SCHOOL DISTRICT – BENTON, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Funds Revenue Recap

Revenue (excluding proceeds from bonds, sale of assets, interfund transfers and on-behalf payments) was derived from state funding (44.94%) followed by local funding (44.90%), and federal funding (10.16%).

Governmental Funds Expenditure Recap

Instruction expenditures made up the majority at (58.53%) followed by Plant Operations (10.91%), Food Service Operations (6.07%), Student Transportation (5.45%), School Administration Support (4.53%), Student Support (3.96%), District Administration (2.89%), Interest on Long-Term Debt, (2.56%), Instructional Support (2.42%), Business Support (1.95%), Community Services (0.66%), and Other Debt Service (.07%).

COMMENTS ON BUDGET COMPARISONS

During the 16-18 Biennium, the General Assembly continues to allow flexibility in the use of school district capital funds without forfeiting the District's eligibility to participate in the School Facilities Construction Commission (SFCC) program. As such, the potential for significant budget changes are present, potentially affecting the flow from one fiscal year to another.

At the end of each odd fiscal year, remaining funds in the capital outlay fund and the building fund must be moved to a restricted SFCC escrow account if the District wants to participate in SFCC offers of assistance. Because of this, there are no funds budgeted to the carryforward account in an even fiscal year for these capital funds.

ADDITIONAL NOTES

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal grants, operate on a different fiscal calendar, but are reflected in the District overall budget. By law the general fund budget must have a minimum 2% contingency. The Kentucky Department of Education recommends at least 4% and recognizes 10% and up as being appropriate, especially considering the uncertainty of a number of critical factors. The FY17 working budget was approved at the September 15, 2016 Board of Education meeting. Over the course of the year, the District revised the annual operating budget several times. Kentucky districts are required to present to the Board of Education a Draft Budget, Tentative Working Budget, and Working Budget. Significant amendments after the passage of the Working Budget are brought to the Board of Education (during the Treasurer's report) for subsequent review.

Questions regarding this report should be directed to the Superintendent or Finance Officer at (270)527-8628 or by mail at 86 High School Road, Benton, KY 42025.

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 10,542,810	\$ 368,635	\$ 10,911,445
Accounts receivable:			
Taxes - current	1,032,979	0	1,032,979
Taxes - delinquent	52,856	0	52,856
Accounts receivable	109,012	8,626	117,638
Due from school activity funds	5,405	0	5,405
Interest	14,082	0	14,082
Intergovernmental - state	328,725	0	328,725
Intergovernmental - indirect federal	348,859	0	348,859
Inventory	0	35,870	35,870
Prepaid expenses	139,474	0	139,474
Total current assets	<u>12,574,202</u>	<u>413,131</u>	<u>12,987,333</u>
Noncurrent Assets:			
Capital assets	101,002,547	1,796,853	102,799,400
Less: Accumulated depreciation	<u>(43,116,704)</u>	<u>(1,335,901)</u>	<u>(44,452,605)</u>
Total noncurrent assets	<u>57,885,843</u>	<u>460,952</u>	<u>58,346,795</u>
TOTAL ASSETS	<u><u>\$ 70,460,045</u></u>	<u><u>\$ 874,083</u></u>	<u><u>\$ 71,334,128</u></u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss from refunding bonds	\$ 1,471,965	\$ 0	\$ 1,471,965
Less: Accumulated amortization	(623,460)	0	(623,460)
Pension contributions subsequent to measurement date	643,353	100,748	744,101
Difference between expected and actual experience	42,086	6,591	48,677
Net difference between projected and actual investment earnings on pension plan investments	906,273	141,926	1,048,199
Change of assumptions	510,684	79,975	590,659
Changes in proportion and differences between employer contributions and proportionate share of contributions	76,640	12,002	88,642
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 3,027,541</u></u>	<u><u>\$ 341,242</u></u>	<u><u>\$ 3,368,783</u></u>
LIABILITIES :			
Current Liabilities:			
Accounts payable	\$ 555,746	\$ 1,370	\$ 557,116
Unearned grant revenue	360,150	0	360,150
Current portion of bond obligations	1,747,000	0	1,747,000
Less: Current portion of unamortized bond discount	(33,946)	0	(33,946)
Current portion of capital lease payable	71,150	0	71,150
Current portion of KSBIT payable	21,872	0	21,872
Current portion of accrued sick leave	118,968	7,279	126,247
Interest payable	234,760	0	234,760
Total current liabilities	<u>3,075,700</u>	<u>8,649</u>	<u>3,084,349</u>
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	36,280,000	0	36,280,000
Less: Noncurrent portion of unamortized bond discount	(431,525)	0	(431,525)
Noncurrent portion of KSBIT payable	65,614	0	65,614
Noncurrent portion of accrued sick leave	597,707	36,573	634,280
Net pension liability	9,640,151	1,509,688	11,149,839
Total noncurrent liabilities	<u>46,151,947</u>	<u>1,546,261</u>	<u>47,698,208</u>
TOTAL LIABILITIES	<u><u>\$ 49,227,647</u></u>	<u><u>\$ 1,554,910</u></u>	<u><u>\$ 50,782,557</u></u>
DEFERRED INFLOWS OF RESOURCES:			
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u><u>\$ 13,406</u></u>	<u><u>\$ 2,100</u></u>	<u><u>\$ 15,506</u></u>
NET POSITION:			
Net investment in capital assets	\$ 21,172,819	\$ 460,952	\$ 21,633,771
Restricted for:			
District activity funds	184,965	0	184,965
Capital projects and construction	2,112,044	0	2,112,044
Debt service	36,299	0	36,299
Other	317,315	0	317,315
Food service	0	(802,637)	(802,637)
Unrestricted	423,091	0	423,091
TOTAL NET POSITION	<u><u>\$ 24,246,533</u></u>	<u><u>\$ (341,685)</u></u>	<u><u>\$ 23,904,848</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Operating	Capital	Governmental Activities	Business- Type Activities	Total
		for Services	Grants & Contributions	Grants & Contributions			
Governmental Activities:							
Instruction	\$ 29,991,783	\$ 316,665	\$ 9,838,927	\$ 1,719,793	\$ (18,116,398)	\$ 0	\$ (18,116,398)
Support Services:							
Student	2,031,726	0	415,934	0	(1,615,792)	0	(1,615,792)
Instructional Staff	1,242,734	0	431,761	0	(810,973)	0	(810,973)
District Administration	1,479,989	0	106,620	0	(1,373,369)	0	(1,373,369)
School Administration	2,318,861	0	519,509	0	(1,799,352)	0	(1,799,352)
Business	1,000,100	0	253,127	0	(746,973)	0	(746,973)
Plant operations and maintenance	5,588,530	0	418,110	0	(5,170,420)	0	(5,170,420)
Student transportation	2,790,370	0	415,769	450,000	(1,924,601)	0	(1,924,601)
Food service	4,144	0	0	0	(4,144)	0	(4,144)
Community service activities	336,560	0	319,556	0	(17,004)	0	(17,004)
Interest on long-term debt	1,311,632	0	143,499	0	(1,168,133)	0	(1,168,133)
Other debt service	35,427	0	0	0	(35,427)	0	(35,427)
Total governmental activities	48,131,856	316,665	12,862,812	2,169,793	(32,782,586)	0	(32,782,586)
Business-Type Activities:							
Food service	3,105,164	569,247	2,355,899	0	0	(180,018)	(180,018)
Adult education	2,444	0	0	0	0	(2,444)	(2,444)
Total business-type activities	3,107,608	569,247	2,355,899	0	0	(182,462)	(182,462)
Total primary government	\$ 51,239,464	\$ 885,912	\$ 15,218,711	\$ 2,169,793	(32,782,586)	(182,462)	(32,965,048)
General Revenues:							
Taxes:							
Property					10,042,274	0	10,042,274
Motor Vehicle					1,429,924	0	1,429,924
Utilities					2,836,144	0	2,836,144
Occupational license tax					2,207,632	0	2,207,632
In Lieu of					1,238,676	0	1,238,676
Earnings on Investments					191,757	4,555	196,312
State and formula grants					15,660,631	0	15,660,631
Gain on retirement of assets					49,765	0	49,765
Miscellaneous					5,010	0	5,010
Transfers					(302,186)	302,186	0
Change in net position					577,041	124,279	701,320
Net position at July 1, 2016					23,669,492	(465,964)	23,203,528
Net position at June 30, 2017					\$ 24,246,533	\$ (341,685)	\$ 23,904,848

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Special Revenue Fund	FSPK Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 8,148,202	\$ 193,976	\$ 1,492,115	\$ 362,987	\$ 10,197,280
Accounts receivable:					
Taxes - current	1,032,979	0	0	0	1,032,979
Taxes - delinquent	52,856	0	0	0	52,856
Accounts receivable	47,019	0	0	61,993	109,012
Due from other funds	27,400	0	0	0	27,400
Due from school activity funds	2,752	2,653	0	0	5,405
Interest	14,082	0	0	0	14,082
Intergovernmental - state	0	37,977	0	290,748	328,725
Intergovernmental - indirect federal	14,242	334,617	0	0	348,859
Prepaid expenses	69,675	69,799	0	0	139,474
TOTAL ASSETS AND RESOURCES	\$ 9,409,207	\$ 639,022	\$ 1,492,115	\$ 715,728	\$ 12,256,072
LIABILITIES AND FUND BALANCE:					
LIABILITIES:					
Accounts payable	\$ 401,524	\$ 66,507	\$ 0	\$ 59,500	\$ 527,531
Due to other funds	0	27,400	0	0	27,400
Unearned grant revenue	0	360,150	0	0	360,150
Current portion of accrued sick leave	118,968	0	0	0	118,968
TOTAL LIABILITIES	520,492	454,057	0	59,500	1,034,049
FUND BALANCES:					
Nonspendable	69,675	0	0	0	69,675
Restricted	358,338	184,965	1,492,115	656,228	2,691,646
Committed	989,894	0	0	0	989,894
Assigned	68,750	0	0	0	68,750
Unassigned	7,402,058	0	0	0	7,402,058
TOTAL FUND BALANCES	8,888,715	184,965	1,492,115	656,228	11,222,023
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,409,207	\$ 639,022	\$ 1,492,115	\$ 715,728	\$ 12,256,072

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2017

Total governmental fund balance per fund financial statements	\$ 11,222,023
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$ 101,002,547	
Accumulated depreciation	<u>(43,116,704)</u>	57,885,843

Deferred outflows that are not financial resources and therefore are not reported as assets in the governmental funds balance sheet

Deferred loss from refunding bonds	848,505	
Pension contributions subsequent to measurement date	643,353	
Difference between expected and actual experience	42,086	
Net difference between projected and actual investment earnings on pension plan investments	906,273	
Change of assumptions	510,684	
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>76,640</u>	3,027,541

Deferred inflows that are not due and payable in the current period and, therefore, are not reported as liabilities in the funds

Changes in proportion and differences between employer contributions and proportionate share of contributions		(13,406)
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Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Interest payable		(234,760)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bond and lease obligations	(37,632,679)	
KSBIT payable	(87,486)	
Net pension liability	(9,640,151)	
Accrued sick leave payable	<u>(597,707)</u>	(47,958,023)

Internal service funds are used by management to charge the cost of dental insurance to individual funds. The assets and liabilities of this internal service fund not included in other reconciling items are:

Current assets	345,530	
Current liabilities	<u>(28,215)</u>	<u>317,315</u>

Net position of governmental activities	<u><u>\$ 24,246,533</u></u>
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See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	General Fund	Special Revenue Fund	FSPK Fund	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
From Local Sources:					
Taxes:					
Property	\$ 7,585,878	\$ 0	\$ 2,456,396	\$ 0	\$ 10,042,274
Motor Vehicle	1,429,924	0	0	0	1,429,924
Utilities	2,836,144	0	0	0	2,836,144
Occupational license tax	2,207,632	0	0	0	2,207,632
In Lieu of	1,196,742	0	0	0	1,196,742
Earnings on Investments	168,050	3,737	0	23,707	195,494
Student activities	0	298,582	0	0	298,582
Other local revenues	206,087	0	0	352,741	558,828
Intergovernmental - State	23,797,513	2,232,815	983,524	879,768	27,893,620
Intergovernmental - indirect federal	70,810	2,262,631	0	0	2,333,441
TOTAL REVENUES	39,498,780	4,797,765	3,439,920	1,256,216	48,992,681
EXPENDITURES:					
Current:					
Instruction	24,093,565	4,300,014	0	0	28,393,579
Support Services:					
Student	1,996,526	7,276	0	0	2,003,802
Instructional Staff	1,083,520	158,771	0	0	1,242,291
District Administration	1,465,212	24,723	0	0	1,489,935
School Administration	2,265,959	0	0	0	2,265,959
Business	964,536	0	0	0	964,536
Plant operations and maintenance	4,809,241	4,489	0	0	4,813,730
Student transportation	2,551,735	73,290	0	0	2,625,025
Food service	4,144	0	0	0	4,144
Community service activities	54,981	270,354	0	0	325,335
Facilities acquisition and construction	8,549	0	0	4,569,171	4,577,720
Debt service	0	0	0	2,884,801	2,884,801
TOTAL EXPENDITURES	39,297,968	4,838,917	0	7,453,972	51,590,857
Excess (deficit) of revenues over expenditures	200,812	(41,152)	3,439,920	(6,197,756)	(2,598,176)
OTHER FINANCING SOURCES (USES):					
Sale or comp for loss of assets	49,765	0	0	0	49,765
Operating transfers in	2,340,367	91,504	0	2,443,664	4,875,535
Operating transfers out	(91,504)	0	(4,345,177)	(741,040)	(5,177,721)
TOTAL OTHER FINANCING SOURCES (USES)	2,298,628	91,504	(4,345,177)	1,702,624	(252,421)
Net change in fund balance	2,499,440	50,352	(905,257)	(4,495,132)	(2,850,597)
Fund Balance, July 1, 2016	6,389,275	134,613	2,397,372	5,151,360	14,072,620
Fund Balance, June 30, 2017	\$ 8,888,715	\$ 184,965	\$ 1,492,115	\$ 656,228	\$ 11,222,023

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2017

Net change in total governmental fund balances per fund financial statements \$ (2,850,597)

Amounts reported for governmental activities in the statement of activities
 are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays are exceeded by depreciation expense for the year.

Depreciation expense	(2,456,549)	
Capital outlays	<u>4,974,787</u>	2,518,238

Gross proceeds from the sale of capital assets are reported as revenue in the governmental funds because they provide current financial resources. However, in the statement of activities, the undepreciated cost of those assets is deducted from the proceeds to report gain or loss on the sale.

Gross proceeds from the sale of fixed assets	(49,765)	
Gain on the disposal of fixed assets	<u>49,765</u>	0

Bond proceeds are reported as financing sources in governmental funds and, thus, contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Capital lease principal paid	69,892	
Note principal paid	21,872	
Bond principal paid	<u>1,686,000</u>	1,777,764

Governmental funds report the effect of gains, losses, and discounts when debt is first issued; whereas, these amounts are amortized in the statement of activities.

Amortization of deferred loss on early retirement of debt	(116,024)	
Amortization of bond discounts	<u>(35,427)</u>	(151,451)

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

These net differences are as follows:

Interest payable	5,732	
Pension expense	(708,852)	
Accrued sick leave	<u>5,916</u>	(697,204)

Internal service funds are used by management to charge the costs of dental insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities.

(19,709)

Change in net position of governmental activities	<u><u>\$ 577,041</u></u>
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See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

	Food Service Fund	Total Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS:				
Current Assets				
Cash and cash equivalents	\$ 368,635	\$ 0	\$ 368,635	\$ 345,530
Accounts receivable:				
Other accounts receivable	8,626	0	8,626	0
Inventory	35,870	0	35,870	0
Total current assets	<u>413,131</u>	<u>0</u>	<u>413,131</u>	<u>345,530</u>
Noncurrent Assets				
Capital assets	1,656,733	140,120	1,796,853	0
Less: accumulated depreciation	<u>(1,208,469)</u>	<u>(127,432)</u>	<u>(1,335,901)</u>	<u>0</u>
Total noncurrent assets	<u>448,264</u>	<u>12,688</u>	<u>460,952</u>	<u>0</u>
TOTAL ASSETS	<u><u>\$ 861,395</u></u>	<u><u>\$ 12,688</u></u>	<u><u>\$ 874,083</u></u>	<u><u>\$ 345,530</u></u>
DEFERRED OUTFLOWS OF RESOURCES:				
Pension contributions subsequent to measurement date	\$ 100,748	\$ 0	\$ 100,748	\$ 0
Difference between expected and actual experience	6,591	0	6,591	0
Net difference between projected and actual investment earnings on pension plan investments	141,926	0	141,926	0
Change of assumptions	79,975	0	79,975	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>12,002</u>	<u>0</u>	<u>12,002</u>	<u>0</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 341,242</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 341,242</u></u>	<u><u>\$ 0</u></u>
LIABILITIES:				
Current Liabilities				
Accounts payable	\$ 1,370	\$ 0	\$ 1,370	\$ 0
Current portion of accrued sick leave	7,279	0	7,279	0
Estimated claims payable, current	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,215</u>
Total current liabilities	<u>8,649</u>	<u>0</u>	<u>8,649</u>	<u>28,215</u>
Noncurrent Liabilities				
Noncurrent portion of accrued sick leave	36,573	0	36,573	0
Net pension liability	<u>1,509,688</u>	<u>0</u>	<u>1,509,688</u>	<u>0</u>
Total noncurrent liabilities	<u>1,546,261</u>	<u>0</u>	<u>1,546,261</u>	<u>0</u>
TOTAL LIABILITIES	<u><u>\$ 1,554,910</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,554,910</u></u>	<u><u>\$ 28,215</u></u>
DEFERRED INFLOWS OF RESOURCES:				
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>\$ 2,100</u>	<u>\$ 0</u>	<u>\$ 2,100</u>	<u>\$ 0</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>\$ 2,100</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 2,100</u></u>	<u><u>\$ 0</u></u>
Net Position				
Net investment in capital assets	\$ 448,264	\$ 12,688	\$ 460,952	\$ 0
Restricted for food service	(802,637)	0	(802,637)	0
Other restricted	<u>0</u>	<u>0</u>	<u>0</u>	<u>317,315</u>
Total net position	<u><u>\$ (354,373)</u></u>	<u><u>\$ 12,688</u></u>	<u><u>\$ (341,685)</u></u>	<u><u>\$ 317,315</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2017

	Food Service Fund	Total Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Operating Revenues:				
Lunchroom sales	\$ 557,926	\$ 0	\$ 557,926	\$ 0
Other operating revenues	11,321	0	11,321	0
Charges for services from other funds	0	0	0	298,133
COBRA revenues	0	0	0	7,829
Total operating revenues	569,247	0	569,247	305,962
Operating Expenses:				
Salaries and benefits	1,409,709	0	1,409,709	0
Contract services	34,898	0	34,898	25,691
Materials and supplies	1,573,053	0	1,573,053	0
Depreciation	70,826	2,444	73,270	0
Claims paid	0	0	0	304,350
Other operating expenses	16,678	0	16,678	0
Total operating expenses	3,105,164	2,444	3,107,608	330,041
Operating income (loss)	(2,535,917)	(2,444)	(2,538,361)	(24,079)
Non-Operating Revenues (Expenses):				
Federal grants	1,870,684	0	1,870,684	0
Donated commodities	174,003	0	174,003	0
State grants	311,212	0	311,212	0
Interest income	4,555	0	4,555	4,370
Total non-operating revenues	2,360,454	0	2,360,454	4,370
Net income (loss) before transfers	(175,463)	(2,444)	(177,907)	(19,709)
Transfers from other funds	302,186	0	302,186	0
Change in net position	126,723	(2,444)	124,279	(19,709)
Net Position, July 1, 2016	(481,096)	15,132	(465,964)	337,024
Net Position, June 30, 2017	\$ (354,373)	\$ 12,688	\$ (341,685)	\$ 317,315

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

	Food Service Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities:				
Cash received from:				
Lunchroom sales	\$ 557,926	\$ 0	\$ 557,926	\$ 0
Other operating revenues	3,568	0	3,568	7,829
Charges for services from other funds	0	0	0	298,133
Cash paid to/for:				
Employees	(1,008,565)	0	(1,008,565)	0
Contract services	(35,475)	0	(35,475)	(27,999)
Materials and supplies	(1,391,748)	0	(1,391,748)	0
Other operating expenses	(16,320)	0	(16,320)	(302,120)
Net cash provided by (used in) operating activities	(1,890,614)	0	(1,890,614)	(24,157)
Cash Flows from Non-Capital Financing Activities:				
Transfers from other funds	302,186	0	302,186	0
Operating grants received	1,896,497	0	1,896,497	0
Net cash provided by (used in) non-capital financing activities	2,198,683	0	2,198,683	0
Cash Flows from Capital and Related Financing Activities:				
Purchases of capital assets	(302,186)	0	(302,186)	0
Net cash provided by (used in) capital and related financing activities	(302,186)	0	(302,186)	0
Cash Flows from Investing Activities:				
Interest income received	4,555	0	4,555	4,370
Net cash provided by (used in) investing activities	4,555	0	4,555	4,370
Net increase (decrease) in cash and cash equivalents	10,438	0	10,438	(19,787)
Cash and cash equivalents, July 1, 2016	358,197	0	358,197	365,317
Cash and cash equivalents, June 30, 2017	\$ 368,635	\$ 0	\$ 368,635	\$ 345,530
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (2,535,917)	\$ (2,444)	\$ (2,538,361)	\$ (24,079)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	70,826	2,444	73,270	0
On behalf payments	285,399	0	285,399	0
Commodities used	174,003	0	174,003	0
Changes in assets and liabilities:				
Inventory	7,013	0	7,013	0
Deferred outflows of resources	(98,866)	0	(98,866)	0
Accounts receivable	(7,753)	0	(7,753)	0
Accounts payable	(6,975)	0	(6,975)	(78)
Accrued sick leave	1,655	0	1,655	0
Net pension liability	221,362	0	221,362	0
Deferred inflows of resources	(1,361)	0	(1,361)	0
Net cash provided by (used in) operating activities	\$ (1,890,614)	\$ 0	\$ (1,890,614)	\$ (24,157)
Non-Cash Investing, Capital, and Financing Activities:				
Food commodities received	\$ 174,003	\$ 0	\$ 174,003	\$ 0
On behalf payments	285,399	0	285,399	0
Total Non-Cash Investing, Capital, and Financing Activities	\$ 459,402	\$ 0	\$ 459,402	\$ 0

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2017

	Private Purpose Trust Funds	Agency Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 367,166	\$ 397,535
Accounts receivable	<u> 0</u>	<u> 6,344</u>
Total Assets	<u><u>\$ 367,166</u></u>	<u><u>\$ 403,879</u></u>
 LIABILITIES:		
Accounts payable	\$ 0	\$ 8,020
Due to Governmental Funds	0	5,405
Due to student groups	<u> 0</u>	<u> 390,454</u>
Total Liabilities	<u><u>\$ 0</u></u>	<u><u>\$ 403,879</u></u>
 NET POSITION HELD IN TRUST	<u><u>\$ 367,166</u></u>	<u><u>\$ 0</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2017

	Private Purpose Trust Funds
	<u> </u>
Additions:	
Interest income	\$ 5,085
Contributions received	<u>62,465</u>
Total Additions	<u>67,550</u>
 Deductions:	
Benefits paid	<u>51,898</u>
Total Deductions	<u>51,898</u>
Change in net position	15,652
Net position, July 1, 2016	<u>351,514</u>
Net position, June 30, 2017	<u><u>\$ 367,166</u></u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year ended June 30, 2017

NOTE A – REPORTING ENTITY

The Marshall County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Marshall County School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards because board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Marshall County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Marshall County School District Finance Corporation – In 1991, the Marshall County Board of Education resolved to authorize the establishment of the Marshall County School District Finance Corporation (a nonprofit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The board members of the Marshall County Board of Education also comprise the Corporation's Board of Directors.

Marshall County Finance Office – On September 1, 1968, the Marshall County Fiscal Court formed the Marshall County Finance Office as an agency of the Board for collecting the .5% occupational license tax for schools. When the District began providing office space and the salary for the collector of the tax, the fund was included as an Agency Fund on the District's financial statements. Based on format changes to the statements under GASB 34, the Finance Office Fund activities were combined with the General Fund.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include all financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation (continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a) Total assets plus deferred outflows, liabilities plus deferred inflows, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b) Total assets plus deferred outflows, liabilities plus deferred inflows, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) Funds may be reported as a major fund if the District considers them significant to the users of the financial statements.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.
- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources, such as grants, donations, or gifts (other than expendable trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. It includes state, federal, and private grants where unused balances are returned to the grantor at the close of specified project periods. Project accounting codes are employed to distinguish specific revenue sources and expenditures. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 56. The Kentucky Department of Education has deemed this fund always be classified as a major fund.
- (C) Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets (other than those financed by Proprietary Funds). Common sources of revenue to these funds are the capital outlay allotment, building fund tax levies, and sale of bonds.
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a major fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise and Internal Service Funds)

- (A) The Food Service Fund (Enterprise) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$174,003 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.
- (B) The Adult Education Fund (Enterprise) is used to account for revenues from adult education programs.
- (C) The Self-insurance Dental Fund (Internal Service) is used to account for the financing of risk management for dental and vision coverage.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Accounting – continued

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) Agency funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds (Redbook).
- (B) The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, such as scholarships.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means resources are expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned grant revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they were levied.

The property tax rates assessed for the year ended June 30, 2017, to finance operations were \$.474 per \$100 valuation for real property, \$.474 per \$100 valuation for business personal property and \$.456 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

In addition, the District levies an occupational license tax of .5% on salaries, wages, commissions, and other compensation of individuals for work done and services performed or rendered in the county by resident individuals and on the net profits of all businesses, professions, or occupations from activities conducted in the county.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for revenues and expenses on the same basis as the actual financial statements, which is Generally Accepted Accounting Principles (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary (food service) fund. Inventory consists of purchased food and donated commodities and is expensed when used. The purchased food is stated at cost and donated commodity inventory is stated at estimated value on date of receipt, with both types using the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items at June 30, 2017 consisted of fidelity bonds paid during the fiscal year ended June 30, 2017 that included coverage for periods beyond June 30, 2017 and the cost of running water lines to the new South Marshall Middle School, which will be applied to the water bill each month until depleted.

Debt Costs

Unamortized discounts of \$465,471 are included in the government-wide statements. Discounts are amortized over the lives of the related debt issues using the straight-line method.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. At its July 17, 2012 meeting, the Board approved a change to its Fixed Asset policy in order to follow guidelines developed by the Kentucky Department of Education in its latest update on January 25, 2012. The new guidelines establish a capitalization threshold of \$5,000 for real or personal property, including computer workstations. Larger thresholds apply to land improvements, buildings and building improvements, leasehold improvements, and infrastructure. Improvements to land and to buildings in excess of established thresholds are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted the policy of providing at retirement a percentage of their accumulated unused sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments and the age and current pay rates of eligible employees.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "current portion of accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System ("CERS") and Teachers Retirement System of the State of Kentucky ("TRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions, and special termination benefits that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as liabilities in the fund financial statements until due.

Fund Balance Classifications

Nonspendable fund balances are amounts that are not in a spendable form (such as prepaid expenses or inventories) or are required to be maintained intact. At June 30, 2017, the District had \$69,675 in nonspendable fund balance – prepaids.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2017, the District had \$358,338 restricted for sick leave in the General Fund, \$184,965 restricted for district activity funds in the Special Revenue Fund, \$1,492,115 restricted for SFCC escrow in the FSPK fund, \$619,929 restricted for future construction in the Construction Fund and \$36,299 restricted for debt service in the Debt Service fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which, for the District, is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2017: \$51,766 for SDBM carryforward, \$10,617 for playground equipment, \$719,759 for buses, \$120,266 for digital curriculum and \$87,486 for KSBIT insurance payable.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2017, was \$64,351 in the General Fund. The General Fund also had \$4,399 assigned for equipment purchases. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance Classifications (Continued)

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position includes all other net position that does not meet the definition of restricted or net investment in capital assets.

Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of materials or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying required supplementary information. Encumbrances are considered a managerial assignment of fund balance at June 30, 2017.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Use of Restricted Resources

The District does not have a policy regarding the use of restricted net position; however when an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's informal policy to use restricted resources first, then unrestricted resources as they are needed, with the exception of funds that are escrowed for SFCC, which must be released by the SFCC and KDE before being used.

Recent Accounting Pronouncements

In March, 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 became effective for the District beginning with its year ended June 30, 2017.

In March, 2017, the GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"). GASB 85 addresses issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). GASB 85 will be effective for the District beginning with its year ending June 30, 2018.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 10, 2017, the date the financial statements were available to be issued.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or saving and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States Government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$11,676,146. The bank balance was \$12,283,959. Of the bank balance, \$11,135,244 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The remaining balance of \$1,148,715 was uninsured and collateralized with securities held by the pledging bank's agent, in the District's name.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
For the Year Ended June 30, 2017

Note E - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

Governmental Activities	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017
Capital Assets:				
Land	\$ 1,341,592	\$ 100,000	\$ 0	\$ 1,441,592
Land improvements	67,000	0	0	67,000
Buildings and improvements	59,700,926	24,697,069	0	84,397,995
Technology equipment	3,013,193	0	0	3,013,193
Vehicles	7,101,121	453,786	0	7,554,907
General Equipment	4,185,798	324,144	0	4,509,942
Construction	20,618,130	4,871,356	25,471,568	17,918
Totals at historical cost	<u>96,027,760</u>	<u>30,446,355</u>	<u>25,471,568</u>	<u>101,002,547</u>
Less: Accumulated depreciation				
Land improvements	16,411	3,350	0	19,761
Buildings and improvements	29,511,050	1,791,666	0	31,302,716
Technology equipment	2,996,819	25,604	0	3,022,423
Vehicles	4,680,915	425,833	0	5,106,748
General Equipment	3,454,960	210,096	0	3,665,056
Total accumulated depreciation	<u>40,660,155</u>	<u>2,456,549</u>	<u>0</u>	<u>43,116,704</u>
Governmental Activities Capital Assets - Net	<u>\$ 55,367,605</u>	<u>\$ 27,989,806</u>	<u>\$ 25,471,568</u>	<u>\$ 57,885,843</u>
Business-Type Activities				
Capital Assets:				
Buildings and improvements	\$ 114,545	\$ 0	\$ 0	\$ 114,545
Technology equipment	67,076	0	0	67,076
General Equipment	1,313,046	302,186	0	1,615,232
Totals at historical cost	<u>1,494,667</u>	<u>302,186</u>	<u>0</u>	<u>1,796,853</u>
Less: Accumulated depreciation				
Buildings and improvements	99,655	2,291	0	101,946
Technology equipment	67,076	0	0	67,076
General Equipment	1,095,900	70,979	0	1,166,879
Total accumulated depreciation	<u>1,262,631</u>	<u>73,270</u>	<u>0</u>	<u>1,335,901</u>
Business-Type Activities Capital Assets - Net	<u>\$ 232,036</u>	<u>\$ 228,916</u>	<u>\$ 0</u>	<u>\$ 460,952</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,220,454
Instructional staff support	443
District administration	37,546
School administrative support	3,615
Business support	215
Plant operation and maintenance	802,975
Student transportation	391,301
Total depreciation expense	<u>\$ 2,456,549</u>

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE F – GENERAL LONG-TERM OBLIGATIONS

The amount shown in the accompanying government-wide financial statements as bond obligations represent the District's future obligations to make lease payments related to school building revenue bonds issued by the Marshall County School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund and the Facility Support Program Levy Fund is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Marshall County School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises will become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

Following is a schedule of obligations existing at June 30, 2017:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount Outstanding</u>
June 15, 2004	June 1, 2018	3.000% - 5.000%	\$ 705,000
April 22, 2008	March 1, 2018	2.200% - 3.300%	455,000
November 30, 2010	November 1, 2030	3.625%	392,000
November 30, 2011	June 1, 2024	2.000% - 2.625%	8,710,000
December 30, 2014	November 1, 2034	2.000% - 3.375%	1,035,000
April 16, 2015	April 1, 2035	3.000% - 3.375%	23,645,000
January 6, 2016	May 1, 2027	1.000% - 3.000%	3,085,000
			<u>\$ 38,027,000</u>

In 1991 the District entered into a "participation agreement" with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The Commission will remit a stated amount of bond principal and interest payments annually, subject to biennial approval by the Kentucky General Assembly. Should approval not be received in future periods, the District remains obligated for the full amount of the bond principal and interest payments. Therefore, the liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

In November 2011, the Board issued bonds to advance refund outstanding 2004 School Building Revenue Bonds that were scheduled to mature on or after June 1, 2014. The defeased bonds were paid during a previous year. In the Statement of Net Position, the net costs associated with the early retirement of the issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a deferred outflow of resources. Total deferred costs were \$1,272,087. Amortization for the year was \$97,853 and is included as a component of interest expense.

In January, 2016, the Board issued bonds to advance refund outstanding 2007 School Building Revenue Bonds that were scheduled to mature on or after May 1, 2018. In the Statement of Net Position, the net costs associated with the early retirement of the issue are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a deferred outflow of resources. Total deferred costs were \$199,878. Amortization for the year was \$18,171 and is included as a component of interest expense. The District and the Kentucky School Facility Construction Commission are required to make semi-annual payments of principal and interest, with the final payment due May 1, 2027.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2017 for debt service (principal and interest) are as follows:

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE F – GENERAL LONG-TERM OBLIGATIONS – CONTINUED

Year	Marshall County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2017-2018	\$ 1,439,472	\$ 1,004,947	\$ 307,528	\$ 133,388	\$ 2,885,335
2018-2019	1,497,053	951,870	295,947	125,422	2,870,292
2019-2020	1,525,462	917,133	303,538	117,832	2,863,965
2020-2021	1,568,612	880,071	311,388	109,980	2,870,051
2021-2022	1,606,547	841,923	319,453	101,917	2,869,840
2022-2023	1,644,205	801,129	327,795	93,575	2,866,704
2023-2024	1,691,637	759,301	336,363	85,006	2,872,307
2024-2025	1,729,928	714,310	294,072	75,526	2,813,836
2025-2026	1,782,537	665,320	302,463	67,135	2,817,455
2026-2027	1,834,258	611,769	311,742	57,856	2,815,625
2027-2028	1,912,802	555,485	184,198	48,292	2,700,777
2028-2029	1,968,058	497,679	189,942	42,548	2,698,227
2029-2030	2,032,940	435,855	196,060	36,429	2,701,284
2030-2031	2,093,489	372,076	194,511	30,241	2,690,317
2031-2032	2,162,956	303,828	172,044	24,321	2,663,149
2032-2033	2,236,627	232,287	178,373	18,644	2,665,931
2033-2034	2,310,936	156,717	184,064	12,624	2,664,341
2034-2035	2,390,018	78,638	189,982	6,412	2,665,050
	<u>\$ 33,427,537</u>	<u>\$ 10,780,338</u>	<u>\$ 4,599,463</u>	<u>\$ 1,187,148</u>	<u>\$ 49,994,486</u>

In July, 2013, the District financed the purchase of wireless infrastructure through a capital lease. The interest rate on the lease is 1.8% and the lease terms specify an annual payment of \$72,431 which began on July 29, 2013. The final payment is due July 29, 2017. Scheduled payments for the lease are as follows:

Year	Principal	Interest	Total
2017-2018	\$ 71,150	\$ 1,281	\$ 72,431
	<u>\$ 71,150</u>	<u>\$ 1,281</u>	<u>\$ 72,431</u>

The District has an installment payment agreement with the Kentucky Department of Insurance to finance an assessment for workers compensation in the amount of \$174,973. The District agreed to pay 25% (\$43,743) by August 31, 2014 with the remainder to be paid in equal annual installments of \$21,872, beginning August 15, 2015 through August 15, 2020. The agreement does not bear interest, unless payments are not made when due. In the event a payment is not paid when due, the past due payment will accrue interest at 12% until paid. At June 30, 2017, the District owed \$87,486 on this agreement.

Interest incurred and charged to expense for fiscal year ended June 30, 2017 was \$1,311,632.

A summary of changes in long-term debt is as follows:

	Balance June 30, 2016	Increase	Decrease	Balance June 30, 2017	Due Within One Year
Bonds payable	\$ 39,713,000	\$ 0	\$ 1,686,000	\$ 38,027,000	\$ 1,747,000
Less: Unamortized discounts	(500,898)	0	(35,427)	(465,471)	(33,946)
Capital lease payable	141,042	0	69,892	71,150	71,150
KSBIT payable	109,358	0	21,872	87,486	21,872
Sick leave	723,769	124,727	131,821	716,675	118,968
Net pension liability	8,305,996	1,334,155	0	9,640,151	0
Totals	<u>\$ 48,492,267</u>	<u>\$ 1,458,882</u>	<u>\$ 1,874,158</u>	<u>\$ 48,076,991</u>	<u>\$ 1,925,044</u>

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

General Information About the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description - Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

The Kentucky Retirement Systems Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS (as well as KERS and SPRS which are other plans administered by KRS). The insurance fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The amount of contribution paid by the Insurance Fund varies based on years of service.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained from <http://kyret.ky.gov/> or by writing or calling the plan.

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124
(502) 564-4646

Benefits Provided - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

General Information About the County Employees Retirement System Non-Hazardous ("CERS") (Continued)

Benefits Provided (Continued) - Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Contributions - Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The employer contribution plan rate was 18.68% for the year ended June 30, 2017. The required contribution rate is made up of a portion that is attributed to the insurance fund and a portion attributed to the pension fund. The rate for the insurance fund is 4.73% and the rate for the pension fund is 13.95%.

General Information About the Teachers' Retirement System of the State of Kentucky ("TRS")

Plan Description - Teaching certified employees of the District and other employees whose position require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS) - a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://trs.ky.gov/financial-reports-information/>.

Benefits Provided - For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

General Information About the Teachers' Retirement System of the State of Kentucky ("TRS") (Continued)

Benefits Provided (Continued) - Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions - Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan Description - In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding Policy - In order to fund the post-retirement healthcare benefit, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and three percent (3%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 11,149,839
Commonwealth's proportionate share of the TRS net pension liability associated with the District	<u>193,521,888</u>
	<u>\$ 204,671,727</u>

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was .226456% of the total liability of CERS and the Commonwealth's proportion of the total liability of TRS that is related to the District was .656%.

For the year ended June 30, 2017, the District recognized pension expense of \$1,574,088 related to CERS and \$3,184,232 related to TRS. The District also recognized revenue of \$3,184,232 for TRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Difference between expected and actual experience	\$ 42,086	\$ 0	\$ 6,591	\$ 0
Net difference between projected and actual earnings on pension plan investments	906,273	0	141,926	0
Change of assumptions	510,684	0	79,975	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	76,640	13,406	12,002	2,100
Pension contributions subsequent to the measurement date	643,353	0	100,748	0
Total	<u>\$2,179,036</u>	<u>\$ 13,406</u>	<u>\$341,242</u>	<u>\$ 2,100</u>

Deferred outflows of resources in governmental activities of \$643,353 and in business-type activities of \$100,748 related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2018	\$ 564,879	\$ 88,467
2019	389,860	61,052
2020	366,198	57,344
2021	201,340	31,531

The net pension liability as of June 30, 2017 is based on the June 30, 2015 actuarial valuation. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Deferred outflows and inflows related to differences between expected and actual experience and change in assumptions are amortized over a period of 3.41 years.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.50%
Projected salary increases, including inflation	4.0% average	4.0-8.2%
Investment rate of return, net of investment expense, including inflation	7.5%	7.50%

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued) – For CERS, the actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016 using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year then applies the expected investment rate of return for the year. The procedure was used to determine the total pension liability as of July 1, 2016.

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis was dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, the actuarial date upon which the total pension liability was based is June 30, 2015. The total pension liability from this valuation was determined using a discount rate of 4.20%, which was based on a municipal bond index rate as of that date equal to 3.01%. The total pension liability used last year was determined using a discount rate equal to 4.88%, which was based on a municipal bond index rate of 3.82%. These two amounts are rolled forward to June 30, 2016 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate (SEIR) for the year. The difference between the two roll-forward amounts as of June 30, 2016 is the gain or loss due to changes in assumptions and other inputs.

For TRS, the mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of scale AA to 2020 with a setback of one year for females. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010 adopted by the TRS Board on December 19, 2011. The results of the experience study for the period July 1, 2010 – June 30, 2015 will be reflected in the June 30, 2016 valuation and the June 30, 2017 GASB 67 report. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	<u>100.0%</u>	

Discount Rate - For CERS, the discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Cash Equivalent Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.4%
Combined Fixed Income	19.0%	1.5%
Real Return (Diversified Inflation Strategies)	10.0%	3.5%
Real Estate	5.0%	4.5%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.5%
Cash Equivalent	2.0%	(.25)%
Total	<u>100.0%</u>	

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The long-term assumed investment rate of return and discount rate was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the actuarially determined contribution rate of projected compensation over the remaining 28 year amortization period of the unfunded actuarial accrued liability. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the closed payroll for existing members.

For TRS, the discount rate used to measure the total pension liability was 4.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that employer contributions will be made at statutorily required rates, and the additional amounts appropriated for fiscal years 2017 and 2018. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01 percent was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present value of the two separate benefit payments streams was used to determine the total pension liability.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE G – RETIREMENT PLANS – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of CERS and TRS proportionate share of the net pension liability to changes in the discount rate - The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$13,894,492	\$11,149,839	\$8,797,106
TRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	\$0	\$0	\$0

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

NOTE H – BENEFITS FUNDED BY KENTUCKY STATE DEPARTMENT OF EDUCATION

The Kentucky Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2017:

Contributions to Kentucky Teachers' Retirement System	\$ 3,184,232
Technology	84,369
SFCC Debt Service	440,914
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>5,088,199</u>
Total	<u>\$ 8,797,714</u>

These payments are recorded in the General, Debt Service, and Food Service Funds as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District.

On-behalf contributions were charged to functions as follows:

Instruction	\$ 5,779,120
Support services:	
Student	408,658
Instructional staff	272,990
District administration	81,897
School administration	519,509
Business	253,127
Plant operations and maintenance	413,621
Student transportation	342,479
Debt service	440,914
Food services	<u>285,399</u>
Total	<u>\$ 8,797,714</u>

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE I – COMMITMENTS AND CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional burden to comply with a change.

NOTE J – INSURANCE AND RISK MANAGEMENT

The District is exposed to various risks of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including workers' compensation insurance. Premiums for these policies are based upon the District's experience to date.

Employees of the District were covered by the District's dental and vision self-insurance plan (the "Plan"). The District contributed a set amount per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Claims were paid by a third party administrator acting on behalf of the District. The administrative contract between the District and the third party administrator is renewable annually and administrative fees are included in the contractual provisions. The costs associated with this self-insurance plan are reported as interfund transactions to the extent of amounts determined to be needed to fund the plan based on past history. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General, Special Revenue and Proprietary Funds. The liabilities of the Plan are based on estimated claims incurred but not yet reported to the third party administrator.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - COBRA

Under the *Consolidated Omnibus Reconciliation Act* ("COBRA"), employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE L – COMMITMENTS FOR SCHOOL CONSTRUCTION

During a previous fiscal year, bonds were issued and contracts were signed for the construction of a new middle school. The total of the contracts for construction, including change orders, was \$23,419,837. As of June 30, 2017, \$23,298,607 has been paid on these contracts, leaving a balance on the contracts of \$121,230. The new middle school was substantially complete and was transferred out of construction in progress during the fiscal year.

MARSHALL COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2017

NOTE M - TRANSFER OF FUNDS

Although each fund is its own distinct reporting entity, amounts may be transferred from one fund to another fund. The most common reasons for interfund transfers are for debt service payments and grant matching requirements. Interfund transfers are eliminated in the government-wide financial statements. The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 91,504
Operating	Capital Outlay	Debt Service	Debt Service	438,854
Operating	FSPK	Debt Service	Debt Service	2,004,810
Operating	FSPK	General	Capital funds request	2,340,367
Capital	Construction	Food Service	Capital assets	302,186

NOTE N – INTERFUND RECEIVABLES AND PAYABLES

Each fund is a separate fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. Interfund receivables and payables for the District arise generally from disbursements being made from a checking account that is used for the general fund, special revenue fund, capital projects funds, and food service funds. When payments are made from the checking account, the amount reduces cash in the general fund, which may not have the legal liability for the expenditures; thus an interfund payable from the fund having the legal liability is established at such time, with a corresponding interfund receivable recorded in the general fund. Typically, interfund receivables and payables are resolved monthly; however, certain balances remained at June 30, 2017, which consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Special Revenue Fund	\$ 27,400	\$ 0
Agency Fund	2,752	0
Special Revenue Fund:		
General Fund	0	27,400
Agency Fund	2,653	0
Agency Fund:		
General Fund	0	2,752
Special Revenue Fund	0	2,653

NOTE O – NET POSITION DEFICIT BALANCE:

The Food Service Fund has a deficit balance of \$354,373. Excluding the adjustment to net position for GASB 68 related to the net pension liability of \$1,170,546, food service has a net position of \$816,173. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE P – LITIGATION

The District is subject to legal actions, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the actions presently in progress.

REQUIRED SUPPLEMENTARY INFORMATION

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 7,722,349	\$ 7,617,263	\$ 7,585,878	\$ (31,385)
Motor Vehicle	1,304,486	1,364,000	1,429,924	65,924
Utilities	3,020,000	2,852,002	2,836,144	(15,858)
Occupational license tax	2,000,000	2,125,000	2,207,632	82,632
In Lieu of	1,080,000	1,195,000	1,196,742	1,742
Earnings on Investments	143,000	150,000	168,050	18,050
Other local revenues	69,000	140,000	206,087	66,087
Intergovernmental - State	23,417,283	23,522,608	23,797,513	274,905
Intergovernmental - indirect federal	50,000	50,000	70,810	20,810
TOTAL REVENUES	38,806,118	39,015,873	39,498,780	482,907
EXPENDITURES:				
Current:				
Instruction	24,282,978	24,489,953	24,093,565	396,388
Support Services:				
Student	1,964,650	1,964,650	1,996,526	(31,876)
Instructional Staff	1,139,245	1,139,245	1,083,520	55,725
District Administration	1,660,710	1,724,892	1,465,212	259,680
School Administration	2,346,292	2,336,194	2,265,959	70,235
Business	999,643	999,643	964,536	35,107
Plant operations and maintenance	6,129,506	6,062,428	4,809,241	1,253,187
Student transportation	2,643,091	3,696,368	2,551,735	1,144,633
Food services	1,500	1,500	4,144	(2,644)
Community services	40,054	59,389	54,981	4,408
Facilities acquisition and construction	0	0	8,549	(8,549)
Contingency	3,752,617	3,627,431	0	3,627,431
TOTAL EXPENDITURES	44,960,286	46,101,693	39,297,968	6,803,725
Excess (deficit) of revenues over expenditures	(6,154,168)	(7,085,820)	200,812	7,286,632
OTHER FINANCING SOURCES (USES):				
Sale or comp for loss of assets	6,500	6,500	49,765	43,265
Operating transfers in	1,400,000	2,340,367	2,340,367	0
Operating transfers out	(82,789)	(91,504)	(91,504)	0
TOTAL OTHER FINANCING SOURCES (USES)	1,323,711	2,255,363	2,298,628	43,265
Net Change in Fund Balance	(4,830,457)	(4,830,457)	2,499,440	7,329,897
Fund Balance, July 1, 2016	4,830,457	4,830,457	6,389,275	1,558,818
Fund Balance, June 30, 2017	\$ 0	\$ 0	\$ 8,888,715	\$ 8,888,715

See independent auditor's report and accompanying notes to financial statements

NOTE: The on-behalf payments of \$8,071,401 from the state are included in both revenues and expenditures in the actual column. While these payments were not required to be budgeted, the district did budget an amount of \$7,826,353 in both revenues and expenditures.

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Earnings on Investments	\$ 0	\$ 0	\$ 3,737	\$ 3,737
Student activities	0	0	298,582	298,582
Other local revenues	1,067	1,067	0	(1,067)
Intergovernmental - State	2,018,027	2,010,703	2,232,815	222,112
Intergovernmental - Indirect federal	2,181,545	2,230,384	2,262,631	32,247
TOTAL REVENUES	4,200,639	4,242,154	4,797,765	555,611
EXPENDITURES:				
Current:				
Instruction	3,765,383	3,940,581	4,300,014	(359,433)
Support Services:				
Student support services	7,495	7,495	7,276	219
Instructional Staff	160,804	162,197	158,771	3,426
District admin support	24,933	24,933	24,723	210
Plant operations and maintenance	0	0	4,489	(4,489)
Student transportation	56,932	66,013	73,290	(7,277)
Community service activities	267,881	267,881	270,354	(2,473)
TOTAL EXPENDITURES	4,283,428	4,469,100	4,838,917	(369,817)
Excess (deficit) of revenues over expenditures	(82,789)	(226,946)	(41,152)	185,794
OTHER FINANCING SOURCES (USES):				
Operating transfers in	82,789	91,504	91,504	0
TOTAL OTHER FINANCING SOURCES (USES)	82,789	91,504	91,504	0
Net Change in Fund Balance	0	(135,442)	50,352	185,794
Fund Balance, July 1, 2016	0	135,442	134,613	(829)
Fund Balance, June 30, 2017	\$ 0	\$ 0	\$ 184,965	\$ 184,965

See independent auditor's report and accompanying notes to financial statements

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.226456%	0.223148%	0.224148%
District's proportionate share of the net pension liability	\$ 11,149,839	\$ 9,594,322	\$ 7,272,199
District's covered payroll	\$ 5,409,008	\$ 5,218,944	\$ 5,142,164
District's proportionate share of the net pension liability as a percentage of its covered payroll	206.13%	183.84%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year. Until a full ten year trend is compiled, governments will present information only for those years for which information is available.

The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation used the following actuarial methods and assumptions, applied to all prior periods included in the measurement.

Valuation date:	6/30/2015
Experience study:	July 1, 2008 - June 30, 2013
Actuarial cost method:	Entry age normal
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	28 years
Asset valuation method:	5-year smoothed market
Inflation:	3.25%
Salary increase:	4.0%, average, including inflation
Investment rate of return:	7.5%, net of pension plan investment expense, including inflation

NOTE: This schedule is based on the last measurement date of the net pension liability.

See Notes to Financial Statements

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
KENTUCKY TEACHERS RETIREMENT SYSTEM (TRS)
LAST THREE FISCAL YEARS***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0%	0%	0%
District's proportionate share of the net pension liability	\$ 0	\$ 0	\$ 0
Commonwealth's proportion of the net pension liability	0.656000%	0.648800%	0.631500%
Commonwealth's proportionate share of the net pension liability associated with the District	\$ 193,521,888	\$ 150,988,190	\$ 129,771,800
District's covered payroll	\$ 20,946,065	\$ 20,328,547	19,790,966
District's proportionate share of the net pension liability	0%	0%	0%
Commonwealth's proportionate share of the net pension liability as a percentage of District's covered payroll	923.91%	742.74%	655.71%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year. Until a full ten year trend is compiled, governments will present information only for those years for which information is available.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported (as of June 30, 2013 for the fiscal year 2016 contributions). The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Valuation date:	6/30/2015
Experience study:	July 1, 2005 - June 30, 2010
Actuarial cost method:	Entry age
Amortization method:	Level percent of pay, open
Remaining amortization period:	30 years
Asset valuation method:	5-year smoothed market
Inflation:	3.50%
Salary increase:	4.0 - 8.2%, including wage inflation at 4.0%
Investment rate of return:	7.5%, net of pension plan investment expense, including price inflation at 3.5%
Municipal Bond Index Rate	3.01%
Single Equivalent Interest Rate	4.20%

See Notes to Financial Statements

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)
LAST TEN FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 744,101	\$ 671,798	\$ 663,060
Contributions in relation to the contractually required contribution	<u>744,101</u>	<u>671,798</u>	<u>663,060</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered payroll	\$ 5,339,200	\$ 5,409,008	\$ 5,218,944
Contributions as a percentage of covered payroll	13.94%	12.42%	12.70%

* The amounts presented for each fiscal year were determined as of June 30.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

Changes of Benefit Terms:

None

Changes of Assumptions:

The following changes were adopted by the Board and reflected in the valuation performed as of June 30, 2015 listed below:

The assumed investment rate of return was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (setback four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

See Notes to Financial Statements

2014	2013	2012	2011	2010	2009	2008
\$ 708,102	\$ 999,881	\$ 1,021,045	\$ 917,451	\$ 868,643	\$ 706,634	\$ 832,566
<u>708,102</u>	<u>999,881</u>	<u>1,021,045</u>	<u>917,451</u>	<u>868,643</u>	<u>706,634</u>	<u>832,566</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 5,142,164	\$ 5,114,477	\$ 5,385,259	\$ 5,419,088	\$ 5,375,276	\$ 5,234,253	\$ 5,148,820
13.77%	19.55%	18.96%	16.93%	16.16%	13.50%	16.17%

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
KENTUCKY TEACHERS RETIREMENT SYSTEM (KTRS)
LAST TEN FISCAL YEARS***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 3,397,289	\$ 3,333,202	\$ 3,262,359
District's contributions in relation to the contractually required contribution - federal programs	213,057	210,563	204,246
Commonwealth's contributions in relation to the contractually required contribution	<u>3,184,232</u>	<u>3,122,639</u>	<u>3,058,113</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
District's covered payroll	\$ 20,788,163	\$ 20,946,065	\$ 20,328,547
Contributions as a percentage of District's covered payroll	16.34%	15.91%	16.05%

* The amounts presented for each fiscal year were determined as of June 30.

NOTE: This schedule is determined as of the employer's most recent fiscal year-end.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

Changes of Benefit Terms:

None

Changes of Assumptions:

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used.

See Notes to Financial Statements

2014	2013	2012	2011	2010	2009	2008
\$ 2,648,536	\$ 2,651,533	\$ 2,714,849	\$ 2,646,767	\$ 2,653,813	\$ 2,605,103	\$ 2,530,008
200,209	196,752	202,581	264,696	238,843	196,927	162,398
<u>2,448,327</u>	<u>2,454,781</u>	<u>2,512,268</u>	<u>2,382,071</u>	<u>2,414,970</u>	<u>2,408,176</u>	<u>2,367,610</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 19,790,966	\$ 19,953,522	\$ 20,521,305	\$ 18,686,173	\$ 20,113,314	\$ 19,807,035	\$ 19,324,265
13.38%	13.29%	13.23%	14.16%	13.19%	13.15%	13.09%

OTHER SUPPLEMENTARY INFORMATION

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES:				
Cash and cash equivalents	\$ 0	\$ 326,688	\$ 36,299	\$ 362,987
Accounts receivable	0	61,993	0	61,993
Intergovernmental - state	0	290,748	0	290,748
TOTAL ASSETS AND RESOURCES	<u>\$ 0</u>	<u>\$ 679,429</u>	<u>\$ 36,299</u>	<u>\$ 715,728</u>
LIABILITIES AND FUND BALANCE:				
LIABILITIES:				
Accounts payable	\$ 0	\$ 59,500	\$ 0	\$ 59,500
TOTAL LIABILITIES	<u>0</u>	<u>59,500</u>	<u>0</u>	<u>59,500</u>
EQUITY AND FUND BALANCES:				
Restricted				
Construction projects	0	619,929	0	619,929
Debt service	0	0	36,299	36,299
TOTAL FUND BALANCES	<u>0</u>	<u>619,929</u>	<u>36,299</u>	<u>656,228</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 0</u>	<u>\$ 679,429</u>	<u>\$ 36,299</u>	<u>\$ 715,728</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	SEEK Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:				
From Local Sources:				
Earnings on Investments	\$ 0	\$ 23,436	\$ 271	\$ 23,707
Other local revenues	0	352,741	0	352,741
Intergovernmental - State	438,854	0	440,914	879,768
TOTAL REVENUES	<u>438,854</u>	<u>376,177</u>	<u>441,185</u>	<u>1,256,216</u>
EXPENDITURES:				
Facilities acquisition and construction	0	4,569,171	0	4,569,171
Debt service	0	0	2,884,801	2,884,801
TOTAL EXPENDITURES	<u>0</u>	<u>4,569,171</u>	<u>2,884,801</u>	<u>7,453,972</u>
Excess (deficit) of revenues over expenditures	<u>438,854</u>	<u>(4,192,994)</u>	<u>(2,443,616)</u>	<u>(6,197,756)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	0	0	2,443,664	2,443,664
Operating transfers out	(438,854)	(302,186)	0	(741,040)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(438,854)</u>	<u>(302,186)</u>	<u>2,443,664</u>	<u>1,702,624</u>
Net Change in Fund Balance	0	(4,495,180)	48	(4,495,132)
Fund Balance, July 1, 2016	<u>0</u>	<u>5,115,109</u>	<u>36,251</u>	<u>5,151,360</u>
Fund Balance, June 30, 2017	<u>\$ 0</u>	<u>\$ 619,929</u>	<u>\$ 36,299</u>	<u>\$ 656,228</u>

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
DEBT SERVICE FUNDS
For the Year Ended June 30, 2017

	2004 BONDS FUND	2007 BONDS FUND	2008 BONDS FUND	2010 BONDS FUND	2011 BONDS FUND	2014 BONDS FUND	2015 BONDS FUND	2016 BONDS FUND	NOW ACCOUNT	Totals Debt service Fund
REVENUES:										
From local sources:										
Earnings on investments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1	\$ 36	\$ 234	\$ 0	\$ 271
Intergovernmental - State	38,632	92,404	19,545	35,591	13,138	0	196,899	44,705	0	440,914
TOTAL REVENUES	38,632	92,404	19,545	35,591	13,138	1	196,935	44,939	0	441,185
EXPENDITURES:										
Debt Service:										
Principal	675,000	105,000	445,000	21,000	135,000	20,000	265,000	20,000	0	1,686,000
Interest	61,256	4,200	29,700	14,591	215,138	32,931	761,340	79,645	0	1,198,801
TOTAL EXPENDITURES	736,256	109,200	474,700	35,591	350,138	52,931	1,026,340	99,645	0	2,884,801
Excess (deficit) of revenues over expenditures	(697,624)	(16,796)	(455,155)	0	(337,000)	(52,930)	(829,405)	(54,706)	0	(2,443,616)
OTHER FINANCING SOURCES (USES):										
Operating transfers in	697,624	16,796	455,155	0	337,000	52,931	829,441	54,717	0	2,443,664
TOTAL OTHER FINANCING SOURCES (USES)	697,624	16,796	455,155	0	337,000	52,931	829,441	54,717	0	2,443,664
Net Change in Fund Balance	0	0	0	0	0	1	36	11	0	48
Fund balance July 1, 2016	547	0	0	0	0	0	1	4,887	30,816	36,251
Fund balance June 30, 2017	\$ 547	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1	\$ 37	\$ 4,898	\$ 30,816	\$ 36,299

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET-SCHOOL ACTIVITY FUNDS
June 30, 2017

	<u>Benton Elementary</u>	<u>Calvert Elementary</u>	<u>Central Elementary</u>	<u>Jonathan Elementary</u>	<u>Sharpe Elementary</u>
ASSETS:					
Cash and cash equivalents	\$ 19,223	\$ 13,258	\$ 15,911	\$ 4,676	\$ 3,734
Accounts Receivable	<u>0</u>	<u>0</u>	<u>18</u>	<u>0</u>	<u>9</u>
 TOTAL ASSETS	 <u><u>\$ 19,223</u></u>	 <u><u>\$ 13,258</u></u>	 <u><u>\$ 15,929</u></u>	 <u><u>\$ 4,676</u></u>	 <u><u>\$ 3,743</u></u>
LIABILITIES:					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 40
Due to Governmental Funds	0	522	2,131	0	0
Due to Student Groups	<u>19,223</u>	<u>12,736</u>	<u>13,798</u>	<u>4,676</u>	<u>3,703</u>
 TOTAL LIABILITIES	 <u><u>\$ 19,223</u></u>	 <u><u>\$ 13,258</u></u>	 <u><u>\$ 15,929</u></u>	 <u><u>\$ 4,676</u></u>	 <u><u>\$ 3,743</u></u>
 NET POSITION HELD IN TRUST	 <u><u>\$ 0</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 0</u></u>	 <u><u>\$ 0</u></u>

See independent auditor's report and accompanying notes to financial statements

South Elementary	Benton Middle	North Middle	South Middle	Marshall County High School	Marshall County Technical Center	Totals (Memorandum Only)
\$ 19,763 0	\$ 0 0	\$ 19,618 42	\$ 11,527 0	\$ 236,652 6,275	\$ 53,173 0	\$ 397,535 6,344
<u>\$ 19,763</u>	<u>\$ 0</u>	<u>\$ 19,660</u>	<u>\$ 11,527</u>	<u>\$ 242,927</u>	<u>\$ 53,173</u>	<u>\$ 403,879</u>
\$ 0 315 19,448	\$ 0 0 0	\$ 18 0 19,642	\$ 134 170 11,223	\$ 7,828 2,267 232,832	\$ 0 0 53,173	\$ 8,020 5,405 390,454
<u>\$ 19,763</u>	<u>\$ 0</u>	<u>\$ 19,660</u>	<u>\$ 11,527</u>	<u>\$ 242,927</u>	<u>\$ 53,173</u>	<u>\$ 403,879</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS
For the Year Ended June 30, 2017

	Benton Elementary	Calvert Elementary	Central Elementary	Jonathan Elementary	Sharpe Elementary
REVENUES:					
From local sources:					
Earnings on Investments	\$ 406	\$ 217	\$ 215	\$ 172	\$ 109
Student activities	65,610	36,069	48,357	31,564	42,504
Total Revenues	66,016	36,286	48,572	31,736	42,613
EXPENDITURES					
Student Activities	77,633	35,649	45,975	37,535	41,214
Total expenditures	77,633	35,649	45,975	37,535	41,214
Net Change in Due to Student Groups	(11,617)	637	2,597	(5,799)	1,399
Due to student groups, July 1, 2016	30,840	12,099	11,201	10,475	2,304
Due to student groups, June 30, 2017	<u>\$ 19,223</u>	<u>\$ 12,736</u>	<u>\$ 13,798</u>	<u>\$ 4,676</u>	<u>\$ 3,703</u>

See independent auditor's report and accompanying notes to financial statements

South Elementary	Benton Middle	North Middle	South Middle	Marshall County High School	Marshall County Technical Center	Totals (Memorandum only)
\$ 294	\$ 3	\$ 475	\$ 383	\$ 3,927	\$ 712	\$ 6,913
44,792	0	102,803	96,031	740,675	36,395	1,244,800
45,086	3	103,278	96,414	744,602	37,107	1,251,713
39,136	7,271	101,914	100,236	778,271	36,761	1,301,595
39,136	7,271	101,914	100,236	778,271	36,761	1,301,595
5,950	(7,268)	1,364	(3,822)	(33,669)	346	(49,882)
13,498	7,268	18,278	15,045	266,501	52,827	440,336
\$ 19,448	\$ 0	\$ 19,642	\$ 11,223	\$ 232,832	\$ 53,173	\$ 390,454

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
MARSHALL COUNTY HIGH SCHOOL
 FOR THE YEAR ENDED JUNE 30, 2017

	Cash Balance	Receipts		Disbursements	
	July 1, 2016	Actual	Budget	Actual	Budget
Student Fees	\$ 0.00	\$ 35,967.00	\$ 42,000.00	\$ 35,937.00	\$ 41,700.00
Interest	72,739.29	6,680.17	5,000.00	38,294.85	25,000.00
MC Mason Benefit Fund	37.79	1,080.00	1,000.00	652.20	1,000.00
Student Activity	1,051.06	7,519.00	3,120.00	7,168.41	5,300.00
Student Benefit Fund	493.13	2,700.00	100.00	2,695.00	100.00
Student ID Fund	0.00	217.50	500.00	217.50	500.00
Book Fees	0.00	2,202.00	500.00	2,202.00	500.00
Parking	0.00	1,265.00	800.00	1,265.00	800.00
Academic	7,173.89	0.00	0.00	3,049.15	4,900.00
Administration/Staff	4,274.00	912.00	1,200.00	1,312.00	1,200.00
Beta/NHS Club	3,537.33	3,486.43	400.00	5,226.43	300.00
Culinary	0.00	33,392.10	2,891.34	33,392.10	3,270.00
Card Mania Club	72.55	36.00	54.00	0.00	30.00
Change Maker Club	0.00	70.00	0.00	70.00	0.00
Club Interact	316.18	0.00	0.00	15.58	50.00
Dead Poet's Society	718.45	48.00	150.00	98.67	50.00
Drama Club	12,505.22	9,061.94	7,000.00	10,444.95	3,350.00
FCA	25.00	0.00	150.00	0.00	75.00
FBLA	1,546.96	9,805.05	5,000.00	9,946.35	4,160.00
Functional Living	1,173.30	106.25	0.00	593.62	200.00
FFA	7,708.94	36,842.46	20,700.00	36,067.29	15,150.00
French Club	0.68	632.00	1,320.00	518.97	1,300.00
Marshall Girls	5,138.84	31,854.63	10,100.00	31,287.37	10,700.00
Marshall Militia (Pep)	234.45	9,740.50	7,300.00	9,237.08	7,000.00
Robotics	766.37	1,204.00	11,166.37	369.91	10,200.00
Science Olympiad	167.79	2,168.00	250.00	1,990.70	250.00
Spanish Club	672.57	698.07	905.00	642.70	855.00
Student Council	20.84	0.00	700.00	0.00	700.00
TSA	337.06	0.00	1,037.05	0.00	400.00
Agriculture	0.00	265.00	3,500.00	265.00	3,050.00
Technology Fund	0.00	35.20	855.01	35.20	0.00
Art II	0.00	4,390.00	2,700.00	4,390.00	2,700.00
Art I	0.00	3,962.00	6,215.06	3,962.00	5,250.00
The Bass Fishing Team	2,391.01	1,495.00	400.00	2,723.50	900.00
Band	0.00	540.50	0.00	540.50	930.32
History/Govt. Trip	1,383.30	0.00	13,500.00	0.00	13,000.00
FCCLA	15,954.21	25,502.65	7,015.56	26,937.70	8,547.02
Jazz Ensemble	0.00	475.00	625.00	475.00	600.00
Improv Team	0.00	5,126.00	0.00	4,281.18	0.00
JCA	241.30	48.00	12.00	36.00	40.00
Library Club	825.60	0.00	0.00	339.36	100.00
Library Dept.	0.00	633.44	2,000.00	633.44	1,550.00
Leadership Dynamics	183.02	1,354.22	7,500.00	1,356.14	6,980.00
Speech Team	43.98	11,289.25	8,616.00	11,333.23	8,525.00
MC Special Olympics	89.01	486.90	300.00	200.00	100.00
Pokemon Go Club	0.00	18.00	0.00	18.00	0.00
Music/Choir	1,199.89	1,129.50	5,215.00	1,774.89	5,220.85
PBL-Project Base	0.00	1,499.03	0.00	1,496.93	0.00
Mountain Biking Club	2,560.28	2,231.00	5,500.00	4,447.84	4,500.00
Trap Shooting Club	11.00	10,132.95	2,000.00	9,229.62	1,900.00
Real World Publishing	0.00	1,847.70	1,575.00	1,847.70	1,550.00
Archery	0.00	1,900.20	1,650.00	1,864.97	1,800.00
Sball Maint. Account	880.31	0.00	0.00	0.00	3,470.00
Cheer Regional	1,109.02	4,279.00	0.00	2,410.26	0.00
Sub-total this page	147,583.62	276,328.64	192,522.39	313,293.29	209,753.19

See independent auditor's report and accompanying notes to financial statements

MARSHALL COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND DUE TO STUDENT GROUPS
MARSHALL COUNTY HIGH SCHOOL
 FOR THE YEAR ENDED JUNE 30, 2017

	Cash Balance	Receipts		Disbursements	
	July 1, 2016	Actual	Budget	Actual	Budget
Bball District	\$ 8,936.76	\$ 9,835.00	\$ 0.00	\$ 6,825.53	\$ 0.00
Athletics	8,664.97	167,681.62	108,000.00	163,389.25	81,100.00
Athletics-Tennis (A)	88.03	2,390.00	1,361.03	1,367.02	500.00
Athletics-Boys Basketball (A)	4,048.85	16,020.00	8,700.00	17,294.56	7,450.00
Athletics-Volleyball (A)	5,013.10	2,350.00	1,000.00	5,838.50	2,900.00
Athletics-Girls Basketball (A)	11,334.44	38,788.30	21,300.00	45,315.49	25,000.00
Athletics-Boys Golf (A)	86.56	1,837.50	1,200.00	1,669.30	760.00
Athletics-Football (A)	2,690.36	4,192.99	4,000.00	6,655.31	3,600.00
Athletics-Baseball (A)	327.48	2,380.52	1,500.00	2,708.00	1,500.00
Athletics - Girls Soccer (A)	4,489.43	11,590.40	15,100.00	10,459.02	10,850.00
Athletics-Boys Soccer (A)	5,560.11	5,605.00	4,000.00	9,840.70	4,500.00
Athletics-Track (A)	127.81	2,434.00	300.00	1,125.96	170.00
Athletics - Softball (A)	447.80	8,850.06	2,000.00	6,733.22	2,000.00
Athletics-Cross Country (A)	2,889.02	366.00	0.00	0.00	1,500.00
Athletics - Hoop Fest	1,187.17	117,967.41	68,600.00	106,006.41	62,100.00
Athletics - Alliance Bowl	5,377.24	0.00	0.00	5,377.24	0.00
Athletics-B/G District Soccer	4,800.00	1,598.24	1,560.00	1,187.32	1,030.00
Athletics-Soccer Subsectional	797.67	790.00	300.00	481.12	425.00
Athletics-Girls Golf (A)	313.40	1,562.50	1,000.00	1,377.52	1,000.00
Athletics-Swim Fund (A)	40.05	0.00	500.00	40.05	500.00
Athletics - Baseball (B)	0.00	2,200.00	1,750.00	1,781.94	1,750.00
Athletics-Girls Basketball (B)	0.00	10,700.00	10,700.00	10,498.59	10,700.00
Athletics-Boys Basketball (B)	8.80	10,775.28	10,700.00	10,784.08	10,700.00
Athletics-Football (B)	0.00	20,164.74	19,927.55	20,164.74	19,927.55
Athletics - Golf (B)	0.00	750.00	750.00	750.00	750.00
Athletics-Girls Golf (B)	0.00	750.00	750.00	750.00	750.00
Athletics - Boys Soccer (B)	21.87	3,500.00	3,486.00	3,327.76	3,400.00
Athletics - Girls Soccer (B)	8.80	4,055.16	3,500.00	4,063.96	3,500.00
Athletics - Softball (B)	0.00	8,125.00	1,750.00	8,125.00	1,750.00
Athletics - Swim Team (B)	2.00	1,000.00	500.00	1,002.00	500.00
Athletics - Tennis (B)	380.25	700.00	700.00	1,073.78	700.00
Athletics - Volleyball (B)	2,093.42	2,400.00	1,540.00	3,236.98	1,540.00
Athletics-Track (B)	0.00	11,909.22	3,000.00	11,902.72	3,000.00
Athletics - Cross Country (B)	0.00	2,200.00	2,000.00	1,539.73	2,000.00
Cheerleaders	14,611.76	23,890.32	14,950.00	30,330.10	14,300.00
Athletics - Middle School	1,061.87	929.13	0.00	150.00	0.00
Athletics - MS Football	0.00	7,707.02	7,616.00	7,707.02	7,616.00
Athletics - MS Soccer	157.19	0.00	0.00	157.19	0.00
Athletics - MS Softball	0.00	0.00	0.00	0.00	0.00
Athletics - MS Track	0.00	0.00	0.00	0.00	0.00
Athletics - MS Cross Country	75.55	1,320.00	1,320.00	310.00	1,300.00
Athletics - MS Volleyball	4,017.63	0.00	0.00	4,017.63	0.00
Junior/Senior Class	22,090.10	11,420.00	10,000.00	10,368.08	8,100.00
Teenage Republicans	0.00	220.00	0.00	192.00	0.00
The Y Club	0.00	11,775.97	0.00	10,667.99	0.00
Annual	669.12	33,485.00	21,135.00	32,969.65	21,000.00
Guidance	6,569.87	1,583.82	1,240.00	1,570.47	195.00
Testing	0.00	22,333.54	0.00	21,555.00	0.00
Fine Arts Fund	8,801.91	6,497.25	500.00	5,700.00	500.00
DAF Grants	0.00	0.00	0.00	0.00	0.00
DAF Instruction	0.00	111,186.97	0.00	111,186.97	0.00
DAF Athletics	0.00	6,493.33	0.00	6,493.33	0.00
DAF Prof Development	0.00	0.00	0.00	0.00	0.00
DAF Library	0.00	473.45	0.00	473.45	0.00
DAF Bldg/Grnds Maint	0.00	8,413.39	0.00	8,413.39	0.00
Subtotal this page	127,790.39	723,198.13	358,235.58	724,955.07	320,863.55
Subtotal from previous page	147,583.62	276,328.64	192,522.39	313,293.29	209,753.19
Total Central Fund	275,374.01	999,526.77	550,757.97	1,038,248.36	530,616.74
Less: Interfund Transfers	0.00	258,629.31	0.00	258,629.31	0.00
Total	<u>\$ 275,374.01</u>	<u>\$ 740,897.46</u>	<u>\$ 550,757.97</u>	<u>\$ 779,619.05</u>	<u>\$ 530,616.74</u>

See independent auditor's report and accompanying notes to financial statements

	Cash Balance June 30, 2017	Accounts Receivable	Accounts Payable	Due to June 30, 2017
Student Fees	\$ 30.00	\$ 0.00	\$ 0.00	\$ 30.00
Interest	41,124.61	691.62	3,551.12	38,265.11
MC Mason Benefit Fund	465.59	0.00	0.00	465.59
Student Activity	1,401.65	15.00	0.00	1,416.65
Student Benefit Fund	498.13	0.00	0.00	498.13
Student ID Fund	0.00	0.00	0.00	0.00
Book Fees	0.00	0.00	0.00	0.00
Parking	0.00	0.00	0.00	0.00
Academic	4,124.74	0.00	0.00	4,124.74
Administration/Staff	3,874.00	0.00	0.00	3,874.00
Beta/NHS Club	1,797.33	0.00	0.00	1,797.33
Culinary	0.00	0.00	0.00	0.00
Card Mania Club	108.55	0.00	0.00	108.55
Change Maker Club	0.00	0.00	0.00	0.00
Club Interact	300.60	0.00	0.00	300.60
Dead Poet's Society	667.78	0.00	0.00	667.78
Drama Club	11,122.21	0.00	0.00	11,122.21
FCA	25.00	0.00	0.00	25.00
FBLA	1,405.66	20.00	0.00	1,425.66
Functional Living	685.93	0.00	0.00	685.93
FFA	8,484.11	1,300.00	2,966.46	6,817.65
French Club	113.71	0.00	0.00	113.71
Marshall Girls	5,706.10	0.00	0.00	5,706.10
Marshall Militia (Pep)	737.87	0.00	0.00	737.87
Robotics	1,600.46	0.00	0.00	1,600.46
Science Olympiad	345.09	0.00	0.00	345.09
Spanish Club	727.94	0.00	0.00	727.94
Student Council	20.84	0.00	0.00	20.84
TSA	337.06	0.00	0.00	337.06
Agriculture	0.00	0.00	0.00	0.00
Technology Fund	0.00	0.00	0.00	0.00
Art II	0.00	0.00	0.00	0.00
Art I	0.00	0.00	0.00	0.00
The Bass Fishing Team	1,162.51	0.00	0.00	1,162.51
Band	0.00	0.00	0.00	0.00
History/Govt. Trip	1,383.30	0.00	0.00	1,383.30
FCCLA	14,519.16	0.00	0.00	14,519.16
Jazz Ensemble	0.00	0.00	0.00	0.00
Improv Team	844.82	0.00	0.00	844.82
JCA	253.30	0.00	0.00	253.30
Library Club	486.24	0.00	0.00	486.24
Library Dept.	0.00	0.00	0.00	0.00
Leadership Dynamics	181.10	0.00	0.00	181.10
Speech Team	0.00	0.00	0.00	0.00
MC Special Olympics	375.91	0.00	0.00	375.91
Pokemon Go Club	0.00	0.00	0.00	0.00
Music/Choir	554.50	0.00	0.00	554.50
PBL-Project Base	2.10	0.00	0.00	2.10
Mountain Biking Club	343.44	0.00	0.00	343.44
Trap Shooting Club	914.33	0.00	233.91	680.42
Real World Publishing	0.00	0.00	0.00	0.00
Archery	35.23	0.00	0.00	35.23
Sball Maint. Account	880.31	0.00	0.00	880.31
Cheer Regional	2,977.76	0.00	0.00	2,977.76
Sub-total this page	110,618.97	2,026.62	6,751.49	105,894.10

	Cash Balance June 30, 2017	Accounts Receivable	Accounts Payable	Due to June 30, 2017
Bball District	\$ 11,946.23	\$ 0.00	\$ 0.00	\$ 11,946.23
Athletics	12,957.34	1,096.29	0.00	14,053.63
Athletics-Tennis (A)	1,111.01	0.00	0.00	1,111.01
Athletics-Boys Basketball (A)	2,774.29	0.00	1,208.05	1,566.24
Athletics-Volleyball (A)	1,524.60	0.00	0.00	1,524.60
Athletics-Girls Basketball (A)	4,807.25	60.00	2,135.10	2,732.15
Athletics-Boys Golf (A)	254.76	0.00	0.00	254.76
Athletics-Football (A)	228.04	0.00	0.00	228.04
Athletics-Baseball (A)	0.00	0.00	0.00	0.00
Athletics - Girls Soccer (A)	5,620.81	0.00	0.00	5,620.81
Athletics-Boys Soccer (A)	1,324.41	0.00	0.00	1,324.41
Athletics-Track (A)	1,435.85	0.00	0.00	1,435.85
Athletics - Softball (A)	2,564.64	0.00	0.00	2,564.64
Athletics-Cross Country (A)	3,255.02	0.00	0.00	3,255.02
Athletics - Hoop Fest	13,148.17	0.00	0.00	13,148.17
Athletics - Alliance Bowl	0.00	0.00	0.00	0.00
Athletics-B/G District Soccer	5,210.92	0.00	0.00	5,210.92
Athletics-Soccer Subsectional	1,106.55	0.00	0.00	1,106.55
Athletics-Girls Golf (A)	498.38	0.00	0.00	498.38
Athletics-Swim Fund (A)	0.00	0.00	0.00	0.00
Athletics - Baseball (B)	418.06	0.00	0.00	418.06
Athletics-Girls Basketball (B)	201.41	0.00	0.00	201.41
Athletics-Boys Basketball (B)	0.00	0.00	0.00	0.00
Athletics-Football (B)	0.00	0.00	0.00	0.00
Athletics - Golf (B)	0.00	0.00	0.00	0.00
Athletics-Girls Golf (B)	0.00	0.00	0.00	0.00
Athletics - Boys Soccer (B)	194.11	0.00	0.00	194.11
Athletics - Girls Soccer (B)	0.00	0.00	0.00	0.00
Athletics - Softball (B)	0.00	0.00	0.00	0.00
Athletics - Swim Team (B)	0.00	0.00	0.00	0.00
Athletics - Tennis (B)	6.47	0.00	0.00	6.47
Athletics - Volleyball (B)	1,256.44	0.00	0.00	1,256.44
Athletics-Track (B)	6.50	0.00	0.00	6.50
Athletics - Cross Country (B)	660.27	0.00	0.00	660.27
Cheerleaders	8,171.98	3,091.89	0.00	11,263.87
Athletics - Middle School	1,841.00	0.00	0.00	1,841.00
Athletics - MS Football	0.00	0.00	0.00	0.00
Athletics - MS Soccer	0.00	0.00	0.00	0.00
Athletics - MS Softball	0.00	0.00	0.00	0.00
Athletics - MS Track	0.00	0.00	0.00	0.00
Athletics - MS Cross Country	1,085.55	0.00	0.00	1,085.55
Athletics - MS Volleyball	0.00	0.00	0.00	0.00
Junior/Senior Class	23,142.02	0.00	0.00	23,142.02
Teenage Republicans	28.00	0.00	0.00	28.00
The Y Club	1,107.98	0.00	0.00	1,107.98
Annual	1,184.47	0.00	0.00	1,184.47
Guidance	6,583.22	0.00	0.00	6,583.22
Testing	778.54	0.00	0.00	778.54
Fine Arts Fund	9,599.16	0.00	0.00	9,599.16
DAF Grants	0.00	0.00	0.00	0.00
DAF Instruction	0.00	0.00	0.00	0.00
DAF Athletics	0.00	0.00	0.00	0.00
DAF Prof Development	0.00	0.00	0.00	0.00
DAF Library	0.00	0.00	0.00	0.00
DAF Bldg/Grnds Maint	0.00	0.00	0.00	0.00
Subtotal this page	126,033.45	4,248.18	3,343.15	126,938.48
Subtotal from previous page	110,618.97	2,026.62	6,751.49	105,894.10
Total Central Fund	236,652.42	6,274.80	10,094.64	232,832.58
Less:Interfund Transfers	0.00	0.00	0.00	0.00
Total	<u>\$ 236,652.42</u>	<u>\$ 6,274.80</u>	<u>\$ 10,094.64</u>	<u>\$ 232,832.58</u>

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION--ALL PRIVATE PURPOSE TRUST FUNDS
June 30, 2017

	Benton High Alumni	A & JD Bohannon	Don Buffington Memorial	Lola Collier	Coy Creason Memorial	John Draffen	Genoa Filbeck	Robert Glick Memorial	William Heath	Charles Hensley	J. Burnett Holland
ASSETS:											
Cash and cash equivalents	\$ 3,711	\$ 11,058	\$ 63,846	\$ 27,860	\$ 4,246	\$ 5	\$ 24,621	\$ 593	\$ 32,342	\$ 3,674	\$ 43,292
TOTAL ASSETS	<u>\$ 3,711</u>	<u>\$ 11,058</u>	<u>\$ 63,846</u>	<u>\$ 27,860</u>	<u>\$ 4,246</u>	<u>\$ 5</u>	<u>\$ 24,621</u>	<u>\$ 593</u>	<u>\$ 32,342</u>	<u>\$ 3,674</u>	<u>\$ 43,292</u>
NET POSITION HELD IN TRUST	<u>\$ 3,711</u>	<u>\$ 11,058</u>	<u>\$ 63,846</u>	<u>\$ 27,860</u>	<u>\$ 4,246</u>	<u>\$ 5</u>	<u>\$ 24,621</u>	<u>\$ 593</u>	<u>\$ 32,342</u>	<u>\$ 3,674</u>	<u>\$ 43,292</u>

See independent auditor's report and accompanying notes to financial statements

Holland Rose	W. & L. Holland Memorial	Landon Lovett Memorial	Steve Martin	Anthony McCarty	Mary Alice Newton	Andy Riley	Charlie & Cora Walker	North Marshall Alumni	Buddy Poe Memorial	Dasha Roberts Memorial	Reed Vocational Technical	Totals (Memorandum Only)
\$ 3,167	\$ 106,709	\$ 11,185	\$ 6,343	\$ 82	\$ 541	\$ 7,218	\$ 5,669	\$ 1,157	\$ 4,012	\$ 5,835	\$ 0	\$ 367,166
<u>\$ 3,167</u>	<u>\$ 106,709</u>	<u>\$ 11,185</u>	<u>\$ 6,343</u>	<u>\$ 82</u>	<u>\$ 541</u>	<u>\$ 7,218</u>	<u>\$ 5,669</u>	<u>\$ 1,157</u>	<u>\$ 4,012</u>	<u>\$ 5,835</u>	<u>\$ 0</u>	<u>\$ 367,166</u>
<u>\$ 3,167</u>	<u>\$ 106,709</u>	<u>\$ 11,185</u>	<u>\$ 6,343</u>	<u>\$ 82</u>	<u>\$ 541</u>	<u>\$ 7,218</u>	<u>\$ 5,669</u>	<u>\$ 1,157</u>	<u>\$ 4,012</u>	<u>\$ 5,835</u>	<u>\$ 0</u>	<u>\$ 367,166</u>

MARSHALL COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION HELD IN TRUST
ALL PRIVATE PURPOSE TRUST FUNDS
For the Year Ended June 30, 2017

	Benton High Alumni	A & JD Bohannon	Don Buffington Memorial	Lola Collier	Coy Creason Memorial	John Draffen	Genoa Filbeck	Robert Glick Memorial	William Heath	Charles Hensley	J. Burnett Holland
REVENUES:											
From local sources:											
Earnings on Investments	\$ 47	\$ 23	\$ 836	\$ 359	\$ 58	\$ 5	\$ 319	\$ 8	\$ 417	\$ 50	\$ 535
Contributions	0	11,035	25	0	0	847	0	0	0	0	5,430
Total Revenues	47	11,058	861	359	58	852	319	8	417	50	5,965
EXPENDITURES											
Benefits paid	0	0	750	0	250	1,000	320	0	0	500	750
Total expenditures	0	0	750	0	250	1,000	320	0	0	500	750
Net Change in Position Held in Trust	47	11,058	111	359	(192)	(148)	(1)	8	417	(450)	5,215
Net Position Held in Trust at July 1, 2016	3,664	0	63,735	27,501	4,438	153	24,622	585	31,925	4,124	38,077
Net Position Held in Trust at June 30, 2017	<u>\$ 3,711</u>	<u>\$ 11,058</u>	<u>\$ 63,846</u>	<u>\$ 27,860</u>	<u>\$ 4,246</u>	<u>\$ 5</u>	<u>\$ 24,621</u>	<u>\$ 593</u>	<u>\$ 32,342</u>	<u>\$ 3,674</u>	<u>\$ 43,292</u>

See independent auditor's report and accompanying notes to financial statements

Holland Rose	W. & L. Holland Memorial	Landon Lovett Memorial	Steve Martin	Anthony McCarty	Mary Alice Newton	Andy Riley	Charlie & Cora Walker	North Marshall Alumni	Buddy Poe Memorial	Dasha Roberts Memorial	Reed Vocational Technical	Totals (Memorandum Only)
\$ 41 0	\$ 1,826 0	\$ 144 2,400	\$ 83 0	\$ 2 0	\$ 7 0	\$ 93 0	\$ 73 0	\$ 15 0	\$ 54 0	\$ 90 500	\$ 0 42,228	\$ 5,085 62,465
41	1,826	2,544	83	2	7	93	73	15	54	590	42,228	67,550
0	1,200	2,400	500	0	0	0	0	0	500	1,500	42,228	51,898
0	1,200	2,400	500	0	0	0	0	0	500	1,500	42,228	51,898
41	626	144	(417)	2	7	93	73	15	(446)	(910)	0	15,652
3,126	106,083	11,041	6,760	80	534	7,125	5,596	1,142	4,458	6,745	0	351,514
<u>\$ 3,167</u>	<u>\$ 106,709</u>	<u>\$ 11,185</u>	<u>\$ 6,343</u>	<u>\$ 82</u>	<u>\$ 541</u>	<u>\$ 7,218</u>	<u>\$ 5,669</u>	<u>\$ 1,157</u>	<u>\$ 4,012</u>	<u>\$ 5,835</u>	<u>\$ 0</u>	<u>\$ 367,166</u>

MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
<u>U.S. Department of Education:</u>				
Passed Through State Dept. of Education:				
Special Education Grants to States	84.027	3810002-15 & 16	\$ 0	\$ 963,209
Special Education Preschool Grants	84.173	3800002-15 & 16	0	87,191
Total Special Education Cluster			0	1,050,400
Title I Grants to Local Educational Agencies	84.010	3100002-14, 15, & 16	0	763,662
Supporting Effective Instruction State Grants	84.367	3230002-15 & 16	0	171,123
Career and Technical Education Basic Grants to States	84.048	3710002-15, 16, & 17, 3710006-14	0	38,870
Passed through State Workforce Cabinet:				
Adult Education Basic Grants to States	84.002	KYAE-2017 & 16-039	0	54,258
TOTAL U.S. DEPARTMENT OF EDUCATION			0	2,078,313
<u>U.S. Department of Health & Human Services:</u>				
Passed through Murray Board of Education:				
Head Start	93.600	655C	0	184,468
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			0	184,468
<u>U.S. Department of Agriculture:</u>				
Passed through State Dept. of Education:				
National School Lunch Program - cash	10.555	7750002-16 & 17	0	1,364,752
National School Lunch Program - donated foods (Note B)	10.555	N/A	0	174,003
School Breakfast Program	10.553	7760005-16 & 17	0	497,880
Summer Food Service Program for Children	10.559	7690024-17 & 7740023-17	0	8,052
Total Child Nutrition Cluster			0	2,044,687
TOTAL U.S. DEPARTMENT OF AGRICULTURE			0	2,044,687
TOTAL FEDERAL ASSISTANCE			\$ 0	\$ 4,307,468

See accompanying notes to schedule
of expenditures of federal awards

MARSHALL COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Marshall County School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Marshall County School District, it is not intended to and does not present the financial position or changes in financial position of the Marshall County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.
- (2) The Marshall County School District did not elect to use the 10% *de minimus* indirect cost rate as allowed under the Uniform Guidance.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. Per USDA instructions, commodities expended are recorded at an amount equal to commodities received and the inventory at June 30, 2017 is combined with purchased food inventory. The pass-through number for the commodities program was not available for the Schedule of Expenditures of Federal Awards.

NOTE D – RECONCILIATION OF SCHEDULE TO FINANCIAL STATEMENTS

The following is a reconciliation of the total in the schedule of expenditures of federal awards to the total federal revenue included in the statement of revenues, expenditures and changes in fund balances – governmental funds on page 13 of the audit report and in the statement of revenues, expenses, and changes in net position – proprietary funds on page 16 of the audit report:

Total intergovernmental – indirect federal from page 13	\$	2,333,441
Total federal grants from page 16		1,870,684
Donated commodities from page 16		174,003
Plus: Amounts coded as negative expenditures		150
Less: Amount of federal funds received as services, such as Medicaid		<u>(70,810)</u>
Total on page 56	\$	<u>4,307,468</u>

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
and Members of the Board of Education
Marshall County School District
Benton, Kentucky

I have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Kentucky Public School Districts' Independent Auditor's Contract*, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request* and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Marshall County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Marshall County School District's basic financial statements, and have issued my report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Marshall County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marshall County School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Marshall County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marshall County School District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *Kentucky Public School District's Independent Auditor's Contract*.

I noted certain matters that I reported to management of the Marshall County School District in a separate letter dated November 10, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, somewhat stylized font.

Benton, Kentucky
November 10, 2017

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Kentucky State Committee for School District Audits
and Members of the Board of Education
Marshall County School District
Benton, Kentucky

Report on Compliance for Each Major Federal Program

I have audited the Marshall County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Marshall County School District's major federal programs for the year ended June 30, 2017. Marshall County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Marshall County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Kentucky Public School Districts' Independent Auditor's Contract*, including *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, Audit Report, and Management Letter Comments Spreadsheet*. Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Marshall County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Marshall County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, Marshall County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Marshall County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Marshall County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Marshall County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Benton, Kentucky
November 10, 2017

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

I. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of the Marshall County School District.
2. No material weaknesses or significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Marshall County School District were disclosed during the audit.
4. No material weaknesses or significant deficiencies in internal control over the major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award program for Marshall County School District expresses an unmodified opinion on the major federal program.
6. There were no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program included:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Special Education Cluster:	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
Title I Grants to Local Educational Agencies	84.010

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. Marshall County School District was determined to be a low-risk auditee.

II. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings in the current year required to be reported in this schedule.

III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings in the current year required to be reported in this schedule.

**MARSHALL COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2017**

I. FINDINGS – FINANCIAL STATEMENT AUDIT

There were no findings in the prior year required to be reported in this schedule.

II. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

There were no findings in the prior year required to be reported in this schedule.

MANAGEMENT LETTER POINTS

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KIM HAM
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Kentucky State Committee for School District Audits
and Members of the Board of Education of
Marshall County School District
Benton, Kentucky

I have audited the financial statements of the Marshall County School District for the year ended June 30, 2017, and have issued my report thereon dated November 10, 2017. In planning and performing my audit of the financial statements of Marshall County School District, I considered the District's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. These comments and recommendations have been discussed with the appropriate members of management and are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized on the following pages.

This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

Respectfully,



Benton, Kentucky
November 10, 2017

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**

June 30, 2017

UNCORRECTED PRIOR YEAR COMMENTS

Central Elementary – In the previous two years, we noted several instances where the purchase order was dated after the invoice date. In the current year, we again noted several instances where the purchase order was dated after the invoice date. See the current year comments for details. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

Sharpe Elementary – In the previous two years, we noted several instances where the purchase order was dated after the invoice date. In the current year, we again noted four instances where the purchase order was dated after the invoice date. See the current year comments for details. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

South Marshall Elementary – In the prior year, we noted six instances where the purchase order was dated after the invoice date and another purchase order that was not signed to indicate approval. In the current year, we again noted four purchase orders that were dated after the invoice date and one that was not signed to indicate approval. See the current year comments for details. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

When examining the fundraising worksheet for Spirit card sales in the prior year, we noted that the form did not include the item count of cards to be sold or the item count of unsold cards. In the current year, we noted one fundraiser worksheet that was not completed. See the current year comment for details. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

North Marshall Middle – When examining a sample of cash receipts in the prior year, we noted twelve multiple receipt forms that were completed by one person, including writing names of each person who remitted the funds. In the current year, we again noted multiple receipt forms were completed by one person instead of having the students sign their own names. See the current year comments for details. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

In our test of inventory control procedures in the past three years, we noted that the F-SA-5 forms were not being properly completed. In the prior year, there were only two worksheets in the file, one that was dated in January and the other dated June. The ending inventory on the January sheet did not agree with the beginning inventory on the June sheet. There were no deliveries listed and one deposit for the month. The shortage for the month was not calculated on the sheet, but was explained as items that were given away. As noted in the current year comments, pencils were being sold, but there were no inventory control worksheets prepared. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

When examining a sample of cash disbursements in the prior year, we noted two instances where the purchase order was dated after the invoice date. We also noted two instances of disbursements with no supporting invoice. In the current year, we again noted improper dates and missing invoices, as listed in the current year comments. See management's response in the current year comments section regarding the steps that will be taken to resolve this matter.

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**
June 30, 2017

CORRECTED PRIOR YEAR COMMENTS

District Office – When examining a sample of payroll disbursements in the prior year, we noted that one certified employee had listed a master's degree level of education, which would have qualified as rank two. The degree was not verified at the time. Upon review of the teaching certificate that was in the personnel file, it was noted that the employee had a rank three certificate. The employee was overpaid for two years based on the incorrect rank. In the current year, the staff began a review of all files and implemented new procedures to ensure that employee pay is accurate. In our current year test, we noted proper pay based on documentation in the personnel files.

Benton Elementary – In the prior year, we noted three instances where the purchase order was dated after the invoice date. In our test of disbursements in the current year, we noted that purchase orders were properly dated and approved prior to the payment being obligated.

Calvert City Elementary – In the prior year, we noted three instances where the purchase order was dated after the invoice date. In our test of disbursements in the current year, we noted that purchase orders were properly dated and approved prior to the payment being obligated.

Jonathan Elementary – In the prior year, we noted three instances where the purchase order was dated after the invoice date. In our test of disbursements in the current year, we noted that purchase orders were properly dated and approved prior to the payment being obligated.

Sharpe Elementary – In the prior year, we noted thirteen instances where either the standard invoice was not signed by the payee or there was no standard invoice used when a vendor invoice was not present. In our test of disbursements in the current year, we noted that standard invoices were used and were signed by the payee when a vendor invoice was not present.

South Marshall Elementary – In the prior year, we noted one transfer form listed a different transferring activity name on the form than what was posted to the ledger, one did not have a dollar amount on the form, two forms could not be located, and four did not have the sponsor's signature. In the current year, the only transfers were to move required amounts to the district activity fund accounts at the board, for which other paperwork is prepared to remit the funds. That paperwork was properly prepared.

Benton Middle – When examining a sample of cash disbursements in the prior year, we noted one instance where the purchase order was dated after the invoice date. Benton Middle was consolidated with South Marshall Middle at the beginning of the current year and purchase orders in our test of the consolidated school were properly dated.

North Marshall Middle – Out of six transfers made during the prior year, three did not have a dollar amount on the form and did not have an approval signature. In the current year, there were no transfers made.

In our test of cash receipts in the prior year, we noted four receipts that were not documented by multiple receipt forms and three receipt numbers that were listed as void on the ledger, but no void receipt ticket could be located. In the current year, we noted supporting documentation for all receipts tested and voided receipts were retained in the file with explanations.

In our test of disbursements in the prior year, we noted that when checks are written to an individual for change to be used for gate or dance receipts, the person receiving the funds did not sign as receiving the funds. For two of those tested, the change was not separately receipted back into the fund. In the current year, we noted proper signatures and receipts back into the fund for these types of disbursements.

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2017**

CORRECTED PRIOR YEAR COMMENTS (Continued)

North Marshall Middle (Continued) – When reviewing the athletic schedules in the prior year to determine which home games to test, we noted that the schedule made available to us did not denote which were home games and which were away games; therefore, we could not determine that tickets were properly used at all home games. We also noted that for the game on January 9, 2016, gate receipts were not deposited until January 19, 2016. In the current year, we were provided with a master schedule that listed the location of each game. Also in our tests of gate receipts, we noted timely deposits.

South Marshall Middle – In the prior year we noted that 13 of the 14 transfer forms did not have a signature of the remitting activity sponsor. In the current year, we noted proper signatures on all transfer forms.

When examining a sample of cash disbursements in the prior year, we noted three instances where the purchase order was dated after the invoice date. In the current year, we noted purchase orders were properly dated.

CURRENT YEAR COMMENTS

Central Elementary

Cash Disbursements: When examining a sample of cash disbursements, we noted ten instances where the purchase order was dated after the invoice date. These were written to a variety of vendors. Purchasing policy #5, found on page 12 of the "Redbook" notes that "the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated".

Management's Response: The principal and the bookkeeper have met and reviewed all of the purchase orders mentioned. In most instances, purchases were made with either verbal or e-mail permission from the principal, but the requestor failed to initiate a purchase order. The building principal has communicated the purchase order requirement to the faculty and staff. He will no longer grant "verbal" or e-mail permission for any requests. All requests will need to be made on a purchase requisition for consideration by the principal. Additionally, the bookkeeper and principal will collaborate monthly to ensure that all staff members are abiding by Redbook regulations.

Sharpe Elementary

Cash Disbursements: When examining a sample of cash disbursements, we noted four instances where the purchase order was dated after the invoice date. One was for a yearbook payment, one was for a credit card charge, one was for honor choir, and one was for other vendor purchases. We also noted two purchase orders that were not signed. These were both to local restaurants. Purchasing policy #5, found on page 12 of the "Redbook" notes that "the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated". It goes on to state "the sponsor's signature indicates there are funds available to pay for the purchase in the specific activity account". Finally, the policy states "before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice".

Management's Response: All four purchases, including the two unsigned PO's were approved by the sponsor and principal via email. Currently and in the future, when the approval is handled through email, these dated emails will be printed and attach to the purchase order/payment documentation.

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**

June 30, 2017

CURRENT YEAR COMMENTS (Continued)

South Marshall Elementary

Fundraisers: We did not find a fundraiser worksheet for Great American sales for the Discovery Class. Fundraising policy #9, found on page 7 of the "Redbook" notes that "fundraisers where items are sold, whether they are purchased or donated or both, require the use of the fundraiser worksheet, which is used to recap the profitability of a fundraiser sales cycle".

Management's Response: The school treasurer is taking measures to relearn Redbook guidelines to prevent these mistakes from happening again. Also, the district office has reassigned the duties of one staff member in order to provide on-site school visits for one on one assistance/training for struggling school treasurers and principals.

Cash Disbursements: When examining a sample of cash disbursements, we noted four instances where the purchase order was dated after the invoice date and another purchase order that was not signed to indicate approval. We also did not locate a purchase order for one disbursement for a field trip. Purchasing policy #5, found on page 12 of the "Redbook" notes that "the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated". It goes on to state "the sponsor's signature indicates there are funds available to pay for the purchase in the specific activity account". Finally, the policy states "before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice".

Management's Response: We are currently addressing the issue of teachers making purchases before they have an approved PO. We held a meeting at the beginning of the year to remind the teachers that they could become responsible for the invoice if they purchase before a PO is issued and approved. The principal also addressed this issue at a staff meeting on October 4th, 2017. If a teacher continues to purchase without a PO the school will eventually take away their buying authority.

North Marshall Middle

Cash Receipts: When examining a sample of cash receipts, we noted eight multiple receipt forms that were completed by one person, including writing names of each person who remitted the funds. Receipts general guideline #3, found on page 5 of the "Redbook" notes that "teachers, sponsors, or students shall use the multiple receipt form or pre-numbered receipts when collecting money" and that "students third grade and above must sign the multiple receipt form".

Management's Response: The building principal met with faculty and staff on October 16, 2017. During this meeting she discussed the issues that NMMS has seen with respect to multiple receipt forms. She discussed both the requirement to use this form (or pre-numbered receipts) when collecting money as well as the proper way to complete the form. The principal will monitor this area continually.

Inventory Control Procedures: In our test of inventory control procedures, we noted there were no F-SA-5 forms being completed for pencil sales. Fundraising policy #11 on page 7 of the Redbook says "fundraiser activities such as concessions, bookstores, pencil machines, and other activities involving inventory for sale shall use the inventory control worksheet (Form F-SA-5)".

Management's Response: The school treasurer completed one inventory control worksheet (F-SA-5) for the sale of the mechanical pencils. She noticed sales were low and stopped offering them to students. In the future, regardless of sales volume, a monthly F-SA-5 form will be completed as required by the Redbook guidelines.

**MARSHALL COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**

June 30, 2017

CURRENT YEAR COMMENTS (Continued)

North Marshall Middle (Continued)

Cash Disbursements: When examining a sample of cash disbursements, we noted thirteen instances where the purchase order was dated after the invoice date. We also noted fifteen instances of disbursements with no supporting invoice, with seven of these being credit card charges. We also noted nine purchase orders for credit card charges that were not signed by the person making the purchase request and, although the principal signed all purchase orders, none were dated by the principal. Purchasing policy #5, found on page 12 of the "Redbook" notes that "the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated". Purchasing policy #7 on the same page notes that "each disbursement shall be documented by a completed purchase order and an original vendor invoice. If a vendor invoice is not available, the disbursements shall be supported by a standard invoice, which must be signed by the payee." Expenditures general guideline #7 on page 11 of the "Redbook" notes that the "standard invoice must have a confirmation signature of the person receiving the goods or services before the payment process can continue".

Management's Response: The school treasurer indicates that she understands the Redbook requirements with respect to purchase orders and invoices. The building principal addressed the ongoing issues with abiding by these requirements with the faculty and staff on October 16, 2017. She reviewed the Redbook guidelines and will work together with the school treasurer monthly until the issue is resolved school wide. In the future, purchasing authority will be suspended as needed for those individuals who are unwilling to abide by Redbook guidelines.

Fundraisers: When reviewing documentation for fundraisers, we noted there was no fundraiser worksheets used for four of them. Because of this, we could not determine whether the funds collected and deposited was reasonable based on what was sold. Fundraising policy #9, found on page 7 of the "Redbook" notes that "fundraisers where items are sold, whether they are purchased or donated or both, require the use of the fundraiser worksheet, which is used to recap the profitability of a fundraiser sales cycle".

Management's Response: The school treasurer is taking measures to relearn Redbook guidelines to prevent these mistakes from happening again. Also, the district office has reassigned the duties of one staff member in order to provide on-site school visits for one on one assistance/training for struggling school treasurers and principals.

Marshall County Technical Center

Cash Disbursements: When examining a sample of cash disbursements, we noted three instances where the purchase order was dated after the invoice date. Purchasing policy #5, found on page 12 of the "Redbook" notes that "the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated".

Management's Response: In both cases, the teachers could not locate the principal to sign the PO and ordered the items required to complete a project. The principal then signed the PO the following day. During October, 2017, the principal sent an email instructing teachers recapping the MCTC process for obligating funds: (1) find the principal to discuss the purchase (2) get the PO approved and signed (3) if the MCTC treasurer is absent or otherwise unable to issue a PO, funds cannot be obligated (4) in cases where this could interfere with instruction (given the nature of three of the MCTC classes), contact the principal to discuss estimating the project cost and generating the purchase order for the entire week with a closeout on Friday.